



*Accelerating Growth of the
New Zealand Venture Capital Industry*

ANNUAL REPORT

For the year ended 30 June 2003



"We are very keen to see more of New Zealand's research discoveries commercialised at home. That's why we created the incubator support programme to nurture and mentor innovative start up companies, and that's also driven the creation of the Venture Investment Fund to fill the gap in the market for seed and start-up capital to

get innovative
business started".

Rt. Hon Helen Clark
Prime Minister of New Zealand

Contents

2	○	Directory
3	○	Highlights
4	○	Chairman's Report
6	○	Board of Directors
8	○	General Manager's Report
11	○	Corporate Governance Statement
12	○	Statement of Responsibility
13	○	Report of the Auditor-General
15	○	Statement of Service Performance
20	○	Statement of Financial Performance
21	○	Statement of Movements in Equity
22	○	Statement of Financial Position
23	○	Statement of Cash Flows
24	○	Reconciliation of Net Surplus to Net Cash Flow
25	○	Notes to the Financial Statements
39	○	Shareholder Information
40	○	Directors' Interests
41	○	Conflict of Interest Procedures

Directory

Directors: John Grant – Chairman
Peter Taylor – Deputy Chairman
June McCabe
Grant Ryan

Registered Office: Level 2, Ron Trotter House
583 Great South Road
Penrose
Auckland

Auditor: Audit New Zealand on behalf of the Auditor General
Auckland

Accountants: Ernst & Young Limited
Auckland

Banker: WestpacTrust
Auckland

Solicitor: Simpson Grierson
Auckland

"VIF is a bold initiative to accelerate the development of New Zealand's venture capital sector,

which is vital to the formation of innovative new businesses. These new businesses based on

technology and on high value-added products and services will be **a key part of New Zealand's economic transformation".**

Hon Pete Hodgson
Minister of Research, Science and Technology

Highlights

Five VIF Seed Funds established

- Contracts were signed with five "investment grade" venture capital Fund Managers (Endeavour icap Ltd, iGlobe Treasury Management Ltd, IO Management Ltd, No 8 Ventures Management Ltd and TMT Management Ltd) each of whom is responsible for selecting and investing in a portfolio of young New Zealand companies with high growth potential.
- The contracts set out the obligations of the Investors and the VIF Seed Fund manager, for the ten-year life of the venture capital fund (VIF Seed Fund) and reflect current best practice for venture capital funds.
- For every \$1 of NZVIF investment commitment, there is a \$2 commitment of private investment capital.
- The five VIF Seed Funds established during the year have a capital base of between \$30 million and \$60 million.

\$135 million committed and available for investment in NZ high growth companies

- Towards the end of the year private investors in the IO Fund elected to buy-out the NZVIF investment, releasing \$20 million of NZVIF capital for reinvestment in other VIF Seed Funds.
- The combined NZVIF and private capital committed for investment in young NZ companies as at 30 June 2003, following the IO Fund buy-out, is \$135 million (this combines \$45 million of NZVIF investment with \$90 million of private investment) with the potential for this to increase to \$300 million over the next year.

VIF Seed Funds now investing in NZ high growth potential companies

- VIF Seed Funds are now actively seeking investments in early stage NZ companies.
- Three investments have been made through the VIF Programme:
 - Compudigm International Ltd
 - EMS Global Ltd
 - Esphion Ltd

VIF announces intention to establish one or more specialist Biotech funds

- NZVIF has made a decision to call for proposals from experienced venture capital fund managers to establish one or more specialist Biotech funds. The call for proposals will occur in August 2003.

“The impact of venture capital is extraordinary in terms of the contributions of VC-backed companies to many determinants of the nation’s economic vitality including R & D spending, new industry creation, tax revenues and job growth, especially high skilled jobs. Venture capital is one of the key ingredients to fuel our economic engine..... We must do everything possible to foster an environment where this type of risk-tolerant, **growth-oriented investment continues to thrive**”.

Andrew Hodge, Group Managing Director
DRI-WEFA



Chairman's Report

Achievement of the New Zealand Government’s ambitious goals set for the VIF Programme, to accelerate the development of the New Zealand venture capital industry, will make a small but vital contribution to the attainment of the vision formulated for New Zealand in “Growing an Innovative New Zealand.”

Venture capital plays a key role internationally in the innovation process, especially in commercialising research and development, lifting exports, creating jobs and stimulating economic activity. Venture capitalists provide patient capital and specialist management skills to support and nurture the growth and development of high risk, small, technology based firms. It is an essential contributor to the financing of the innovation process with multiplier effects that are far greater than any other sector of the financial community. Accordingly, many OECD Governments already have or are now implementing programmes to mobilise venture capital in support of small innovative firms and thus encourage investment in this high risk, high growth potential sector.

The NZVIF Board considers that good progress has been made so far in implementing the VIF Programme. During the year NZVIF conditionally committed \$85 million, out of the \$100 million available, to five experienced “investment grade” venture capital fund managers, who have been contracted to manage the VIF Seed Funds, including making portfolio investment decisions. Each of the managers have qualified management teams based in New Zealand, established international networks and sound strategies for raising matching private funds. The NZVIF commitments were made conditional upon each VIF Seed Fund manager raising \$2 of matching private sector capital for every \$1 contributed by NZVIF.

NZVIF announced in June the intention to call for proposals from Fund Managers to manage a sector specific Biotech fund. A Call for Proposals will be made in August 2003. By the end of next year it is expected that the full \$100 million will have been committed by NZVIF and VIF Seed Funds will have raised \$300 million for investment in high growth potential NZ businesses. Furthermore by then a substantially increased number of early stage investments will have been made by the existing VIF Seed Funds following a full year of operation.

But more still needs to be achieved in the short term to support the successful rollout of the VIF Programme and much more in the longer term to underpin the broader development of venture capital envisaged through the VIF Programme goals.

In particular NZVIF has an ongoing role in identifying barriers to, and opportunities for, growing and developing the New Zealand venture capital industry. For the industry to grow, New Zealand needs an environment that is internationally competitive in attracting investment capital, world-class venture capital management teams and investment opportunities that are increasing in number and quality. These cornerstones need to be in place to fully deliver against the VIF Programme goals.

Australia's recent action both in adopting the standard, internationally accepted General Partner/Limited Partner fund structure and in creating a competitive and transparent tax environment, to attract international venture capital investors, has important implications for New Zealand. A key issue for New Zealand is the tax position of long-term venture capital investors. Australia has recently introduced new legislation that provides for certain classes of international investors, including US pension funds, to be exempt from taxation in Australia, provided they invest through approved venture capital limited partnership vehicles. New Zealand must take a similar approach to avoid losing potential international venture capital investment interest to Australia. We must also work to remove barriers that inhibit capital flows from Australian venture capital investors, particularly the large, rapidly growing superannuation sector, into the embryonic New Zealand venture capital industry.

The visionary goals for the VIF Programme characterise a vibrant self-sustaining, internationally competitive venture capital industry for New Zealand. These goals can be achieved and the Programme will bear economic fruit, if the climate for supporting innovation is right.

The NZVIF Board is optimistic about the potential impact of the VIF Programme and expects tangible evidence of progress towards the achievement of VIF Programme goals to emerge progressively over the next ten years.



John Grant
Chairman

Board of Directors

The Board is responsible for implementing the VIF Programme. This includes selecting the managers for each VIF Seed Fund, agreeing the terms under which the funds will be operated, co-investing with private investors in individual funds and monitoring and reporting to the Government on the performance of each fund. The terms of reference also include a role in promoting the VIF Programme to the investment community in New Zealand and abroad.



John Grant
Chairman

"The development of a dynamic, sustainable venture capital industry will give worthy New Zealand entrepreneurs access to the financial and specialist investment skills of venture capitalists in the commercialisation of New Zealand ideas and building New Zealand based international ventures, while enabling production of superior returns for investors".

John is a Sydney based venture capitalist with broad experience in venture capital investment and corporate governance. John has 20 years of successful experience in private equity investing in Australia and internationally and is experienced in active participation at Board level in public companies and statutory authorities. John is Executive Chairman of Grantham Capital, an investment company he established in 1981 to invest in and provide advice to high-potential, innovative Australian businesses.



June McCabe
Director

"One of the challenges for the Venture Investment Fund is in compelling Banks, Institutions and Superannuation Funds to see the benefits of allocating parts of their portfolios to private equity and venture capital assets. This requires them to take a longer-term view to investing in New Zealand".

June is Director, Corporate Affairs New Zealand Division, Westpac Banking Corporation. She also holds a number of Board and Trust Board positions reflecting broad-based governance experience. She has also had an extensive career in both the private and public sectors including: public policy formulation, banking, finance and investment management.



Peter Taylor
Deputy Chairman

"As New Zealand's Crown Research Institutes, Universities and other research institutions increasingly seek opportunities to commercialise their research, the VIF Programme can play a valuable bridging role, bringing capital and commercial skills to complement the wealth of high quality research and innovative new technologies seeking paths to market".

Peter is Chair of the Public Trust, a Commerce Commissioner and Chairman or Director of a number of private sector companies. Peter has over 30 years business management and restructuring experience. He has worked at Board level in large corporates as well as maintaining a hands-on involvement in small to medium sized businesses. He is a past managing partner of the Wellington office and a past member of the National Board of Ernst & Young.



Grant Ryan
Director

"Creating a robust venture capital industry is an essential part of giving entrepreneurial companies options for accelerating expansion – VIF is a bold step in the right direction."

Grant is a successful entrepreneur who has grown NZ technology companies and is currently Managing Director of RealContacts Ltd. Grant is the originator of internet search technology that led to the formation of GlobalBrain Ltd which was subsequently purchased by NBCi (backed by General Electric) in May 2000.

“The involvement of a venture capitalist in the early stages of the company sets a level of

discipline that does well by the company in future years. These factors, combined with a

commitment to R & D and breakthrough innovation, gives the **venture-backed organisations that make it to the public markets an edge”.**

Mark Heesen

President, (US) National Venture Capital Association



General Manager's Report

Significant progress has been made over the past year in implementing the VIF Programme, with the establishment of five new VIF Seed Funds, ranging in size from \$30 to \$60 million.

The five fund managers selected to manage the VIF Seed Funds (Endeavour i-cap Ltd, iGlobe Treasury Management Ltd, IO Management Ltd, No 8 Ventures Management Ltd and TMT Management Ltd) have each been through an extensive independent due diligence to confirm the investment grade status of their management teams. The process of selecting each of the VIF Seed Fund managers has deliberately focussed on the skills and experience of each fund manager, in growing the young, high potential New Zealand technology companies they have chosen to invest with, and assisting those companies to find a suitable growth path to international markets. It is also the responsibility of the VIF Seed Fund managers to seek out suitable investments and make the investment decisions.

By 30 June 2003 each of the five VIF Seed Funds had raised sufficient private sector funds to have at least the minimum fund size of \$30 million and to be fully operational. Two of the funds had also achieved their target fund size. Towards the end of the period, investors in one VIF Seed Fund (the IO Fund) exercised their option to buy-out the NZVIF investment, releasing \$20 million of NZVIF capital for commitment to other fund managers.

Table 1: VIF Seed Funds

Fund Manager	First Close Fund Size	Final Close Target Fund Size
Endeavour i-cap	\$30 million – achieved	\$60 million
IGlobe Treasury	\$30 million – achieved	\$60 million
No 8 Ventures	\$30 million – achieved	\$60 million
TMT Ventures	n/a	\$45 million – achieved
IO Fund	n/a	\$60 million – achieved

As at 30 June total funds raised by the four continuing VIF Seed Funds was \$135 million, \$90 million of which has been committed by private investors alongside \$45 million of NZVIF commitment. (For every \$1 of NZVIF investment in each fund, private investors have invested \$2). NZVIF has committed a further \$30 million to the VIF Seed Funds, subject to further private sector investment to be completed by 30th September this year (Final Close). If the four funds achieve their target fund size through attracting further private investment, a total of \$225 million will have been committed for investment through the VIF Programme by 30th September 2003.

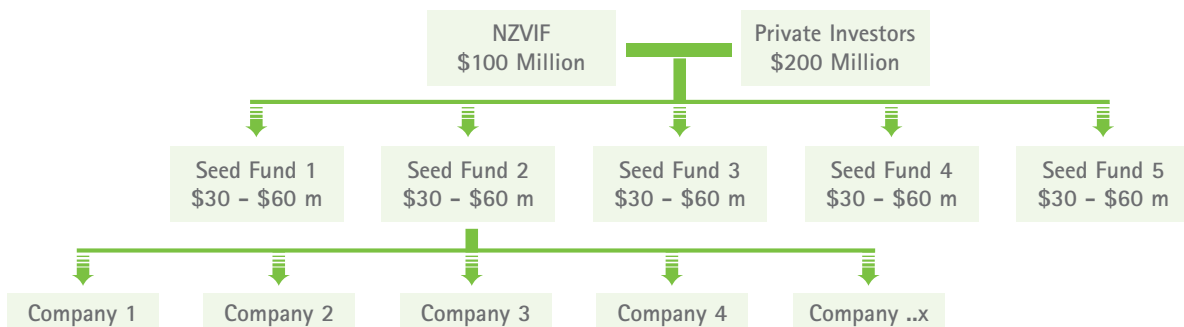
Table 2: VIF Capital Commitments to VIF Seed Funds as at 30 June 2003

VIF Capital Committed	\$45 million
VIF Conditional Capital Commitments	\$30 million
VIF Unallocated Capital	\$25 million
Total VIF Capital	\$100 million

In completing contractual arrangements with VIF Seed Fund managers, the NZVIF focus has consistently been on aligning the contractual documentation and consequential fund monitoring, investor governance and reporting arrangements, with international venture capital industry best practice standards. Commercial terms agreed with each fund manager are also in line with international best practice for these types of funds. NZVIF has taken this best practice approach quite deliberately, to facilitate the increased maturity and attractiveness of the local venture capital industry and, in particular, to give private investors who are interested in investing in New Zealand venture capital funds, increased confidence to do so.

Superannuation funds, pension funds, community trusts and other large institutional investors are significant investors in venture capital internationally but, perhaps as might be expected in a fledgling market like New Zealand, these types of investors are as yet poorly represented. With a range of VIF Seed Funds available for investment, the VIF Programme provides a unique opportunity for investors to access a structured 'fund of funds' investment portfolio. NZVIF has been active over the past year in meeting with potential investors and their advisors to explain the value to their portfolio of including an investment allocation to venture capital, through the VIF Programme.

Table 3: VIF Programme Investment Structure



NZVIF has also played an active role throughout the past year in supporting the wider New Zealand venture capital industry through membership and financial sponsorship of the New Zealand Venture Capital Association (NZVCA) as well as direct participation in projects that have been launched by the NZVCA, such as the industry survey, that will assist in profiling the local venture capital industry.

The NZVIF Group financial result for the year ended 30 June 2003 was a net deficit before taxation of \$690,844. Major contributors to this deficit are the VIF Seed Fund management fees, which are funded from the VIF \$100 million capital commitment and a decrease in the book value of investments made through VIF Seed Funds. The financial results of NZVIF are consistent with expectations for the early years of investing in venture capital funds that have a ten-year life. NZVIF can expect losses to continue to increase until the VIF Seed Funds begin to generate returns on the investments.

Over the next year the VIF Programme will focus on the establishment of one or more Biotech funds. This decision has been made both for portfolio diversification reasons and because of the potential strength of the New Zealand biotechnology market, as identified in the Government Growth and Innovation Strategy and the recent New Zealand Biotechnology Taskforce Report. A Call for Proposals will take place in August 2003, with the intention of having at least one fund ready to start investing in 2004.

With a minimum of \$25 million NZVIF capital available for investment it is expected that one or more specialist Biotech funds can be established. Combined with matching private investment commitments of at least \$50 million (i.e. a 1:2 ratio), a total of \$75 million will potentially be available for investment in young high growth Biotech companies, over the next 5-6 years.

NZVIF will also continue to play an active role in monitoring the activity and performance of VIF Seed Fund Managers, and advising Government on the progress and performance of the VIF Programme. It is early days in the life of the VIF Seed Funds and it is expected that the primary focus of the fund managers over the next year will be on seeking out and making investments in suitable high growth potential young companies.

As yet institutional and pension fund investment in New Zealand venture capital funds is limited. Participation of these types of investors will be the mainstay of a sustainable and thriving local venture capital industry. Over the next year NZVIF will continue to play an active role in promoting investment in the New Zealand venture capital industry, particularly to local institutional and pension fund investors.

Wider Government initiatives that support the growth of the New Zealand venture capital industry will be welcomed by NZVIF particularly where these initiatives encourage a wider range of large institutional investors and pension funds to consider investing in New Zealand venture capital funds. NZVIF looks forward to a continuing role in assisting the Government to review the opportunities as well as advising on significant barriers that exist and which are likely to hinder the long term success of the New Zealand venture capital industry.

Franceska Banga
General Manager

"Typically, technology companies have little in the way of tangible assets and need lots of capital..

the partnership with venture capitalists who bring money and an array of experience, networks

and capital to the table is a natural. And the economic impact of the partnership is powerful.

.....the net result is the creation of successful, world-class companies, which employ hundreds if

not thousands of people, and **generate significant
new economic wealth".**

Eighth Annual Survey of the Economic Impact of Venture Capital – 2000
MacDonald and Associates Limited for Business Development Bank of Canada

Corporate Governance Statement

Charter

NZVIF was incorporated on the 1 July 2002 under the New Zealand Companies Act 1993. A Crown Company, the company's principal activity is as a venture capital 'fund of funds', responsible for establishing VIF Seed Funds and ensuring that appropriate monitoring and reporting arrangements are in place. The overall purpose of NZVIF is to accelerate the growth of the venture capital industry in NZ through the effective administration of the NZVIF Programme.

Management of the Company

The business and affairs of the company are managed by or under the direction or supervision of the Board of Directors. The board exercises all powers of the company not required to be exercised by the shareholders.

Board of Directors

The Board establishment is four non-executive Directors who normally meet six times per year and as required for strategic planning purposes and to progress specific decisions. The Board is accountable to the shareholding Ministers in the manner set out in the NZVIF Constitution and the NZVIF Establishment Funding Agreement.

The Board establishes strategic policy, guides and monitors the business and affairs of the company on behalf of shareholders and is committed to a high standard of corporate governance. Responsibility for the operation and administration of the company is delegated to the General Manager who is accountable to the Board. In particular the Board places emphasis on implementation of venture capital best practice, sound administrative systems and procedures and regulatory compliance.

Directors

Directors are appointed by the shareholding Ministers following Cabinet approval. Current Directors are appointed for three years through until August 2004, with reappointment at the discretion of the shareholding Ministers.

Governance Review

A governance review is undertaken at least annually, to ensure effectiveness of governance structures.

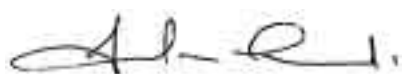
Statement of Responsibility

For The Year Ended 30 June 2003

The Board and management of NZVIF accept responsibility for the preparation of the annual financial statements and the judgements used in them.

The Board and management of NZVIF accept responsibility for establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the Board and management of NZVIF the annual financial statements for the year ended 30 June 2003 fairly reflect the financial position and operations of NZVIF and Subsidiaries.



J R Grant
Chairman
2 October 2003



P J M Taylor
Deputy Chairman
2 October 2003



F E Banga
General Manager
2 October 2003

Report of the Auditor-General



Report of the Auditor-General

To the Readers of The Financial Statements of New Zealand Venture Investment Fund Limited and Group for the year ended 30 June 2003

We have audited the financial statements on pages 15 to 38. The financial statements provide information about the past financial and service performance of New Zealand Venture Investment Fund Limited and group and its financial position as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 25 to 29.

Responsibilities of the Board of Directors

The Public Finance Act 1989 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of New Zealand Venture Investment Fund Limited and group as at 30 June 2003 and the results of its operations and cash flows and service performance achievements for the year ended on that date.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed H C Lim, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements; and
- whether the accounting policies are appropriate to New Zealand Venture Investment Fund Limited and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in New Zealand Venture Investment Fund Limited and group.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by New Zealand Venture Investment Fund Limited and group as far as appears from our examination of those records; and
- the financial statements of New Zealand Venture Investment Fund Limited and group on pages 15 to 38:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - New Zealand Venture Investment Fund Limited and group's financial position as at 30 June 2003;
 - the results of operations and cash flows for the year ended on that date; and
 - the service performance achievements in relation to the performance targets and other measures adopted for the year ended on that date.

Our audit was completed on 2 October 2003 and our unqualified opinion is expressed as at that date.



H C Lim
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand



Statement of Service Performance

For The Year Ended 30 June 2003

Introduction

NZVIF is required to prepare an annual Statement of Service Performance, reporting on the Key Performance Indicators and Output Objectives as set out in the NZVIF 2002-2007 Statement of Intent.

NZVIF is responsible for establishing the VIF Seed Funds and ensuring that appropriate VIF Seed Fund monitoring and reporting arrangements are in place. NZVIF is also charged with establishing the VIF Seed Funds in such a way as to contribute to achieving the VIF Programme goals, as agreed by Cabinet. The NZVIF role as a 'fund of funds' means that NZVIF does not participate in the investment decisions made by VIF Seed Fund managers, beyond ensuring that the investments fit the VIF Programme mandate and eligibility criteria. Nevertheless, NZVIF investment performance will be largely determined by VIF Seed Fund managers' investment performance.

Summary of Performance

Progress made during the year has been encouraging although performance against some of the indicators has been negatively impacted by the buy-out of the IO Fund and delays in raising private sector capital.

The timing for establishment of VIF Seed Funds, which was later than originally planned in some cases, has resulted in the number of investee companies and the amount invested through the VIF Programme, being lower than expected. As the VIF Seed Funds have an active investment period of five years, it is expected they will make good investment progress now that they are underway.

During the year the investors in the IO Fund made a decision to exercise their buy-out in the IO Fund, with the result being that \$20 million came back into the VIF Programme for future investment commitment. The impact is to reduce the percentage of committed VIF Seed Funds from 65% to 45% and to reduce the number of key investment personnel from 13 to 11 for the 2002/03 year.

Following the IO Fund buy-out, NZVIF now has \$25 million available for investment in further VIF Seed Funds, that it is planned to establish during 2003/04. The new VIF Seed Fund (or Funds) will have a specialist Biotech focus.

Key Performance Indicators

Indicators have been established for NZVIF financial performance, VIF Programme performance and VIF Seed Fund financial performance, as set out in tables 4, 5 and 6.

Statement of Service Performance continued

For The Year Ended 30 June 2003

Table 4: NZVIF Financial Performance¹

	Actual 2002/03	SOI Forecast 2002/03
Operating expenses ²	\$1.5m	\$1.6m
Working capital ³	\$1.7m	\$0.2m
NZVIF capital drawn down	\$4.7m	\$5.5m - \$9.4m
NZVIF capital drawn down (cumulative)	\$4.7m	\$5.5m - \$9.4m
Distributions received	0	0
Buy-out option proceeds ⁴	\$1.9m	0
Net value of NZVIF investments (cumulative)	\$1.8m	\$3.8m - \$7.5m

Table 5: VIF Programme Performance for 2002/03

	Actual 2002/03	SOI Forecast 2002/03
Number of VIF Seed Funds Established during 2002/03	5	4 - 5
Percentage of \$100m committed to VIF Seed Funds during 2002/03 ⁵	65%	66% - 83%
Number of investments made in companies during 2002/03	3	6 - 11
Number of seed and start up investments	1	3 - 5
Number of companies exporting	2	1 - 3
Number of deals from Crown Research Institutes & Universities	0	1 - 2
Number of key investment personnel	11	12 - 15
Total amount invested through the VIF Programme (cumulative) - VIF & private sector	\$14.2m	\$16.4m - \$28.1m

¹ Figures in Tables 4-6 are annual, unless stated as being cumulative. As this is the first year of NZVIF operation annual and cumulative figures are the same.

² Operating expenses refer to the operating expenses of the NZVIF Group, parent company and excluding management fees paid to VIF Seed Fund Managers.

³ Working capital is greater than forecast due to the exercise of the buy-out option by the IO Fund investors.

⁴ Comprising proceeds from sale of investment and reimbursement of fund costs.

⁵ Includes capital committed to IO Fund, which was then returned to VIF when the buy-out was exercised by IO Fund investors.

Statement of Service Performance continued

For The Year Ended 30 June 2003

Table 6: VIF Seed Funds Financial Performance

	Actual 2002/03	SOI Forecast 2002/03
NZVIF capital drawn down	\$4.7m	\$5.5m - \$9.4m
VIF Seed Funds management expense	\$(0.66m)	\$(1.62m) - \$(1.86m)
Distributions made	0	0
Value of buy-out options exercised	\$1.9m	0
Impairment in the value of investments	\$(0.3m)	0
Increase in the value of investments	0	0
NZVIF capital drawn down (cumulative)	\$4.7m	\$5.5m - \$9.4m
Net value of NZVIF investments (cumulative)	\$1.8m	\$3.8m - \$7.5m

Statement of Service Performance continued

For The Year Ended 30 June 2003

Output Objectives for The Establishment, Governance and Administration of NZVIF

Objective	Description	Desired Outcome	Performance & Timeliness
1. Governance of NZVIF	NZVIF Board established with appropriate Governance mechanisms.	Good governance of NZVIF in accordance with its Constitution and Statement of Intent.	Achieved within the required timeframes.
2. Selection of VIF Seed Fund managers	NZVIF is required to select venture capital fund managers who will be responsible for managing the VIF Seed Funds and making investment decisions.	Investment charters negotiated and agreed with fund managers in line with venture capital industry best practice. Full due diligence is undertaken when engaging fund managers.	Achieved within the required timeframes.
3. Fund management	As a 'fund of funds', NZVIF is required to ensure that the Government's investment mandate is achieved and the key terms for management of the VIF Seed Funds are consistent with industry best practice.	Conforms to industry best practice for a venture capital 'fund of funds'. Contracts conform with investment mandate, as set by Cabinet. Key commercial terms for investment in venture capital funds conform to industry best practice.	Achieved within the required timeframes.
4. Buy-out mechanism	Private investors in VIF Seed Funds have the option of purchasing the Government 1/3 investment in VIF Seed Funds, up to the end of year five.	Establish a buy-out mechanism that encourages private sector buy-out and also meets Government expectations regarding returns on its capital contribution.	Achieved within the required timeframes.

Statement of Service Performance continued

For The Year Ended 30 June 2003

Objective	Description	Desired Outcome	Performance & Timeliness
5. VIF Seed Fund monitoring	<p>Establishment of a monitoring framework and performance indicators for VIF Seed Fund performance.</p> <p>Monitor the performance and results being achieved by VIF Seed Fund managers.</p>	<p>Establish monitoring and governance processes that conform to industry best practice and provide a high level of assurance about compliance with investment charters.</p> <p>Establish reporting requirements with fund managers.</p>	Achieved within the required timeframes.
6. Administration	Day-to-day management of NZVIF core business.	Sound administrative practices are implemented to support NZVIF core business.	Achieved within the required timeframes.
7. Progress and Achievement Report	Provide shareholding Ministers with an annual 'Progress and Achievement' (PAR) report, which includes an assessment of the effectiveness of investment decisions and advice on future policy directions and initiatives.	Acceptance of the report confirms the Minister's satisfaction.	Achieved within the required timeframes.
8. Advice to the Minister	Advice will be provided to the Minister as required, on matters pertaining to the VIF Programme, NZVIF and VIF Seed Funds.	The advice will be delivered within 15 working days of the formal request, unless otherwise agreed, and will be of a standard acceptable to the Minister.	Achieved within the required timeframes.

Statement of Financial Performance

For The Year Ended 30 June 2003

	Note	Group		Parent	
		2003 Actual	2003 Budget	2003 Actual	2003 Budget
Revenue	2.	1,950,567	1,633,702	1,534,642	1,633,702
Operating expenditure		2,641,411	3,281,221	1,545,003	3,281,221
Net surplus/(deficit) before taxation	3.	(690,844)	(1,647,519)	(10,361)	(1,647,519)
Income tax expense	4.	-	-	-	-
Net surplus/(deficit) after taxation		<u>\$(690,844)</u>	<u>\$(1,647,519)</u>	<u>\$(10,361)</u>	<u>\$(1,647,519)</u>

The accompanying notes form an integral part of these financial statements.

Statement of Movements in Equity

For The Year Ended 30 June 2003

	Note	Group		Parent	
		2003 Actual	2003 Budget	2003 Actual	2003 Budget
Opening balance as at 1 July 2002		-	-	-	-
Net surplus/(deficit) after taxation		(690,844)	(1,647,519)	(10,361)	(1,647,519)
Total recognised revenues and expenses for the year		(690,844)	(1,647,519)	(10,361)	(1,647,519)
Increase in share capital		4,737,382	7,405,000	4,737,382	7,405,000
Closing balance at 30 June 2003	6.	<u>\$4,046,538</u>	<u>\$5,757,481</u>	<u>\$4,727,021</u>	<u>\$5,757,481</u>

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

As at 30 June 2003

	Note	Group		Parent	
		2003 Actual	2003 Budget	2003 Actual	2003 Budget
Equity	6.	4,046,538	5,757,481	4,727,021	5,757,481
Total equity		<u>\$4,046,538</u>	<u>\$5,757,481</u>	<u>\$4,727,021</u>	<u>\$5,757,481</u>
<i>Represented by:</i>					
Current assets					
Bank		2,145,073	248,046	2,144,606	248,046
Receivables and prepayments	7.	258,413	11,506	10,560	11,506
Other current assets	8.	1,043	16,291	1,043	16,291
		<u>2,404,529</u>	<u>275,843</u>	<u>2,156,209</u>	<u>275,843</u>
Non-current assets					
Property, plant, and equipment	9.	43,871	22,084	43,871	22,084
Investments in subsidiaries	10.	-	-	500	-
Investments through VIF Seed Funds	11.	1,835,534	5,667,000	-	5,667,000
Related party loans	12.	-	-	2,979,447	-
		<u>1,879,405</u>	<u>5,689,084</u>	<u>3,023,818</u>	<u>5,689,084</u>
Total assets		<u>4,283,934</u>	<u>5,964,927</u>	<u>5,180,027</u>	<u>5,964,927</u>
Current liabilities					
Payables and accruals	14.	225,333	207,446	440,943	207,446
Other current liabilities	15.	12,063	-	12,063	-
Total liabilities		<u>237,396</u>	<u>207,446</u>	<u>453,006</u>	<u>207,446</u>
Net assets		<u>\$4,046,538</u>	<u>\$5,757,481</u>	<u>\$4,727,021</u>	<u>\$5,757,481</u>



J R Grant
Director
2 October 2003



P J M Taylor
Director
2 October 2003

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For The Year Ended 30 June 2003

Note	Group		Parent	
	2003 Actual	2003 Budget	2003 Actual	2003 Budget
Cash flows from operating activities				
Cash was provided from:				
Revenue from the Crown	1,531,480	1,633,702	1,531,480	1,633,702
Interest received	2,118	-	2,118	-
Net goods and services tax	12,063	(15,621)	12,063	(15,621)
Reimbursement of fund costs	346,888	-	-	-
	<u>1,892,549</u>	<u>1,618,081</u>	<u>1,545,661</u>	<u>1,618,081</u>
Cash was applied to:				
Payments to suppliers	(2,064,788)	(2,758,948)	(805,750)	(2,758,948)
Payments to employees	(319,659)	(316,126)	(319,659)	(316,126)
	<u>(2,384,447)</u>	<u>(3,075,074)</u>	<u>(1,125,409)</u>	<u>(3,075,074)</u>
Net cash flows from operating activities	(491,898)	(1,456,993)	420,252	(1,456,993)
Cash flows from investing activities				
Cash was provided from:				
Sale of investments through VIF Seed Funds	1,674,297	-	-	-
	<u>1,674,297</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash was applied to:				
Purchase of fixed assets	(33,080)	(32,961)	(33,080)	(32,961)
Purchase of investments in subsidiaries	-	-	(500)	-
Purchase of investments through VIF Seed Funds	(3,741,628)	(5,667,000)	-	(5,667,000)
Related party loans	-	-	(2,979,447)	-
	<u>(2,100,411)</u>	<u>(5,699,961)</u>	<u>(3,013,028)</u>	<u>(5,699,961)</u>
Net cash flows from investing activities	(2,100,411)	(5,699,961)	(3,013,028)	(5,699,961)
Cash flows from financing activities				
Cash was provided from:				
Increase in share capital	4,737,382	7,405,000	4,737,382	7,405,000
	<u>4,737,382</u>	<u>7,405,000</u>	<u>4,737,382</u>	<u>7,405,000</u>
Net cash flows from financing activities	4,737,382	7,405,000	4,737,382	7,405,000
Net increase/(decrease) in cash held	2,145,073	248,046	2,144,606	248,046
Plus opening cash	-	-	-	-
Closing cash balance	<u>\$2,145,073</u>	<u>\$248,046</u>	<u>\$2,144,606</u>	<u>\$248,046</u>

The accompanying notes form an integral part of these financial statements.

Reconciliation of Net Surplus to Net Cash Flow

For The Year Ended 30 June 2003

	Group 2003 Actual	Parent 2003 Actual
Net surplus/(deficit) after taxation	(690,844)	(10,361)
Add back gain on sale of investment	(69,037)	-
Add (less) non-cash items:		
Depreciation	22,170	22,170
Impairment in the value of Investments through VIF Seed Funds	300,834	-
Resident withholding tax	(1,043)	(1,043)
	321,961	21,127
Add (less) movements in working capital items:		
Increase in receivables and prepayments	(258,412)	(10,560)
Increase in payables and accruals	192,371	407,983
Increase in other current liabilities	12,063	12,063
	(53,978)	409,486
Net Cash Flows from Operating Activities	<u>\$(491,898)</u>	<u>\$420,252</u>

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For The Year Ended 30 June 2003

1. Statement of accounting policies

Reporting entity

The New Zealand Venture Investment Fund Limited (NZVIF) and its subsidiaries are companies registered under the Companies Act 1993.

The company and its subsidiaries comprise the NZVIF Group.

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993 and section 41 of the Public Finance Act 1989 and comply with generally accepted accounting principles.

Measurement base

The principles recognised as appropriate for the measurement and reporting of financial performance, financial position and cash flows on a historical cost basis except for investment are followed by the NZVIF Group.

Specific accounting policies

The following specific accounting policies, which materially affect the measurement of financial performance, financial position and cash flows, have been applied:

(a) Budget figures

The budget figures are those approved by the Board at the beginning of the financial year and as amended during the course of the year as a result of an agreed increase in revenue to be received from the Crown.

At the beginning of the year NZVIF did not prepare separate NZVIF subsidiary budgets as the subsidiaries had not yet been established and the timing for establishment and number of subsidiaries was not yet known. Forecasts were therefore prepared at an aggregate level only. Hence, the budget figures for both the parent company and the NZVIF Group are the same.

The budget figures for equity investments through VIF Seed Funds and management fees paid to VIF Seed Fund managers are included in the parent's budget for the year ended 30 June 2003 and are based on the mid point of the forecast range contained in the NZVIF Statement of Intent 2002/2003.

The budget figures have been prepared in accordance with generally accepted accounting principles and are consistent with the accounting policies adopted by the Board for the preparation of the financial statements.

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

(b) Basis of consolidation

Subsidiaries are entities in which the company has the capacity to determine the financing and operating policies and from which it has an entitlement to significant ownership benefits.

The consolidated financial statements include the parent company and its subsidiaries accounted for using the purchase method. All significant intercompany transactions are eliminated on consolidation. In the company's financial statements investments in subsidiaries are recognised at their cost.

(c) Revenue recognition

Revenue shown in the statement of financial performance comprises the amounts received and receivable by the NZVIF Group for services supplied to the Crown.

Additionally, any realised and unrealised gains due to revaluation of investments at year-end are recorded as revenue in the year in which they are incurred.

(d) Goods and services tax

The consolidated financial statements of the NZVIF Group incorporate the financial information of the parent company, which is prepared on a GST exclusive basis except for receivables and payables, and the financial information of the subsidiary companies, which is prepared on a GST inclusive basis as the companies are not registered for GST.

(e) Taxation

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effect of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

(f) Property plant and equipment

Fixed assets are recorded at cost less accumulated depreciation. The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs that have been incurred in bringing the assets to the location and condition necessary for their intended use.

Where a permanent impairment in the value of a fixed asset causes the recoverable amount to fall below the net carrying value, the fixed asset is written down to the recoverable amount.

Depreciation is provided on a diminishing value basis at rates that will write down the cost of valuation of the assets to their estimated residual values over their estimated useful lives. The useful lives of the major classes of assets have been determined as follows:

Computer equipment	48%
Office equipment	11.4% - 39.6%
Website	33%

(g) Accounts receivable

Accounts receivable are stated at estimated realisable value after providing against debts where collection is doubtful.

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

(h) *Prepayments*

Prepayments consist primarily of directors liability insurance paid in advance. Prepaid directors liability insurance is expensed on a straight-line basis over the term of the insurance policy.

(i) *Investments*

The NZVIF Group co-invests, alongside private sector investors, in early stage (seed, start-up and early expansion) investments and these investments represent equity owned directly by NZVIF subsidiaries. The investments are made through venture capital funds (VIF Seed Funds), which are managed by private sector venture capital fund managers (VIF Seed Fund managers) who make the investment decisions. The NZVIF Group is not responsible for and does not exercise significant influence over these individual portfolio investments.

The typical life cycle of a venture capital fund that invests in early stage companies comprises a period of initial investment activity, usually up to the end of year five, followed by periods of growth and realisation of the investments. Returns on venture capital funds tend to follow a "J curve" effect, where the initial years show a decline in net asset value, as start up costs, management fees and impairments in the value of investments deplete capital before any gains are realised in years 5-10 of the fund's life.

The financial results of NZVIF are consistent with expectations for the early years of investing in venture capital funds that have a ten-year life. NZVIF can expect losses to continue to increase until the VIF Seed Funds begin to generate returns on the investments.

All investments will be early stage investments at the time of the initial investment. The VIF Seed Fund Managers are contractually required to value investments on an annual basis. The valuation of these investments will be undertaken by the VIF Seed Fund Managers using accepted venture capital industry guidelines.

Venture capital industry guidelines recommend that early stage investments should be valued at cost until they cease to be regarded as early stage unless:

- a significant transaction involving an independent third party at arms-length values the investment at a materially different value, or
- a provision for impairment is considered necessary if the performance of the investment is significantly below the expectations on which the investment was based, leading to a diminution in value.

If the investments are no longer considered to be early stage by the VIF Seed Fund Manager then the investment should be valued according to one of the bases set out below:

- Cost (less any provision required)
- Third party transaction
- Earnings multiple
- Net assets

Dividend income is accounted for when received.

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

(j) Impairment

If the recoverable amount of an investment is less than its carrying amount, the item is written down to its recoverable amount. The write down of an investment recorded at cost is recognised as an expense in the statement of financial performance.

The carrying amount of an investment, which has previously been written down to its recoverable amount, will be increased to its current recoverable amount if there has been a change in the estimates used to determine the amount of the write down. The increased carrying amount of the investment will not exceed the carrying amount that would have been determined if the write down to its recoverable amount had not occurred. Reversals of impairment write-downs are recognised as income in the statement of financial performance.

(k) Leased assets

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised in the statement of financial performance in equal instalments over the term of the lease.

(l) Foreign currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these translations are reported at the forward rates specified in those contracts.

At balance date foreign monetary assets and liabilities are translated at the closing rate and exchange variations arising from these translations are recognised in the statement of financial performance.

(m) Financial instruments

Financial instruments recognised in the statement of financial position include cash balances, receivables, payables, investments including advances, and term borrowings.

These financial instruments are stated at market value and any gain or loss is recognised in the statement of financial performance.

(n) Employee entitlements

Provision is made for annual leave entitlements estimated to be payable to employees on the basis of statutory and contractual requirements. The provision is equal to the present value of the estimated future cash outflows as a result of employee services provided at balance date.

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

(o) *Statement of cash flows*

The following are the definitions of the terms used in the statement of cash flows:

- 1 Cash is considered to be cash on hand, current accounts in banks and overnight bank deposits, net of bank overdrafts
- 2 Investing activities are those relating to the acquisition, holding and disposal of fixed assets and investments. Investments can include securities not falling within the definition of cash.
- 3 Financing activities are those activities that result in changes in the size and composition of the capital structure of the NZVIF Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- 4 Operating activities include all transactions and other events that are not investing or financing activities.

(p) *Comparatives*

As this is the first year of operations there are no comparative figures.

Changes in accounting policies

All accounting policies have been applied on a consistent basis since commencement on 1 July 2002.

2. Revenue

	Group	Parent
Revenue from the Crown	1,531,480	1,531,480
Gain on disposal of investment	69,037	-
Management fees recovered	346,888	-
Interest received	3,162	3,162
	<u>\$1,950,567</u>	<u>\$1,534,642</u>

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

3. Net surplus/(deficit) before taxation

The net surplus is after charging:

	Group 2003	Parent 2003
Audit fees	20,000	20,000
Depreciation	22,170	22,170
Directors' fees	119,445	119,445
Impairment in the value of Investments through VIF Seed Funds	300,834	-
Interest expense	44	32
Management fees and fund costs paid to VIF Seed Fund Managers	664,265	-
Operating lease costs	28,339	28,339
Subvention payment	-	226,027

4. Income tax expense

	Group 2003	Parent 2003
Net surplus/(deficit) before taxation	(690,844)	(10,361)
Prima facie income tax @ 33%	(227,979)	(3,419)
<i>Add (subtract) permanent differences</i>		
Non-deductible expenditure	159,560	3,419
Tax loss not recognised	68,419	-
Tax expense	\$-	\$-

Unrecognised tax losses of \$207,330, with a tax effect \$68,419, are available to carry forward and offset against future taxable income.

5. Imputation credit account

	Group 2003	Parent 2003
Opening balance at 1 July 2002	-	-
Income tax paid during the year	-	-
Resident withholding tax on interest received	1,043	1,043
Closing balance at 30 June 2003	\$1,043	\$1,043

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

6. Equity

	Group 2003	Parent 2003
Share capital		
Opening balance at 1 July 2002	-	-
Issued capital	4,737,382	4,737,382
Ordinary share capital at 30 June 2003	4,737,382	4,737,382
Retained earnings		
Opening balance at 1 July 2002	-	-
Net surplus/(deficit) after taxation	(690,844)	(10,361)
Closing balance at 30 June 2003	(690,844)	(10,361)
Total equity at 30 June 2003	\$4,046,538	\$4,727,021

The parent company has 100 ordinary shares, which were unpaid at 30 June 2003. All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

During the year the parent company received funds from the Crown, by way of equity subscriptions, to facilitate the Crown's objective of accelerating the development of the New Zealand venture capital industry.

The share capital of the parent company increased on the following dates:

November 2002	\$1,600,000
January 2003	\$2,040,131
February 2003	\$75,115
March 2003	\$254,376
April 2003	\$767,760

7. Receivables and prepayments

	Group 2003	Parent 2003
Trade receivables	-	-
Prepayments	258,413	10,560
	\$258,413	\$10,560

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

8. Other current assets

	Group 2003	Parent 2003
Income tax refundable	1,043	1,043
	<u>\$1,043</u>	<u>\$1,043</u>

	Group		
	Cost	Accumulated Depreciation	2003 Net Book Value
Computer equipment	33,057	11,735	21,322
Office equipment	6,794	1,792	5,002
Website	26,190	8,643	17,547
	<u>\$66,041</u>	<u>\$22,170</u>	<u>\$43,871</u>

	Parent		
	Cost	Accumulated Depreciation	2003 Net Book Value
Computer equipment	33,057	11,735	21,322
Office equipment	6,794	1,792	5,002
Website	26,190	8,643	17,547
	<u>\$66,041</u>	<u>\$22,170</u>	<u>\$43,871</u>

	Group 2003	Parent 2003
Computer equipment	11,735	11,735
Office equipment	1,792	1,792
Website	8,643	8,643
	<u>\$22,170</u>	<u>\$22,170</u>

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

10. Investments in shares

The parent company's investment in subsidiaries comprises shares at cost. The subsidiaries are:

Subsidiary	Principal activity	Interest held
		2003
NZVIF (EIP) Limited	Investment through venture capital funds	100%
NZVIF (IGT) Limited	Investment through venture capital funds	100%
NZVIF (IOM) Limited	Investment through venture capital funds	100%
NZVIF (No 8) Limited	Investment through venture capital funds	100%
NZVIF (TMT) Limited	Investment through venture capital funds	100%

All subsidiaries have 30 June balance dates and are all included in the consolidated financial statements.

11. Investments through VIF Seed Funds

The NZVIF Group has made a number of investments through VIF Seed Funds. These investments are as follows:

Investment	Carrying Value 2003	Interest Held 2003
Investments through VIF Seed Funds in unlisted companies	2,136,368	33%
Revaluation of the Investments	(300,834)	
	<u>\$1,835,534</u>	

12. Related party loans

	Group 2003	Parent 2003
NZVIF (EIP) Limited	-	234,023
NZVIF (IGT) Limited	-	-
NZVIF (IOM) Limited	-	(69,037)
NZVIF (No 8) Limited	-	287,312
NZVIF (TMT) Limited	-	2,527,149
	<u>\$-</u>	<u>\$2,979,447</u>

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

Advances made by the parent to the subsidiaries are by way of limited recourse loans. Such advances fund the subsidiaries' investment activities. Repayment of the advances is limited to amounts or assets received by way of a distribution from the VIF Seed Fund investment or amounts received upon the realisation of the VIF Seed Fund investment.

Advances made to the parent are unsecured and repayable on demand.

The advances are not subject to interest.

13. Related parties

The parent company is a wholly owned entity of the Crown. The Crown provides revenue to meet the operating costs of the parent company. The Crown also subscribes for equity in the parent company, which the parent company advances to its subsidiaries in the form of limited recourse loans. The funds received from the Crown for these loans is converted into additional share capital (see Note 6).

The parent company and NZVIF (IOM) Limited are in a taxable position for the year ended 30 June 2003. As the remaining NZVIF subsidiaries have substantial income tax losses, the Board has resolved that subvention payments will be used to offset the losses against income in these two entities. The parent company has subvention payments payable to NZVIF (No 8) Limited, of \$113,013, and NZVIF (TMT) Limited, of \$113,014, for the year ended 30 June 2003. NZVIF (IOM) Limited has a subvention payment payable to NZVIF (EIP) Limited, of \$66,942, for the year ended 30 June 2003. These transactions are eliminated on consolidation but are included in the parent company's accounts.

During the year NZVIF purchased services from Martin Jenkins Et Associates Limited, a company which Peter Taylor is a Director of. This amounted to \$11,479. There were no other related party transactions with entities that the Directors have an interest in.

There were no other related party transactions during the year.

14. Payables and accruals

	Group 2003	Parent 2003
Accrued expenses	94,345	94,345
Subvention payable (see Note 13)	-	226,027
Trade payables	130,988	120,571
	<u>\$225,333</u>	<u>\$440,943</u>

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

15. Other current liabilities

	Group 2003	Parent 2003
GST payable	12,063	12,063
	<u>\$12,063</u>	<u>\$12,063</u>

16. Employee entitlements

	Group 2003	Parent 2003
Annual leave	11,745	11,745
	<u>\$11,745</u>	<u>\$11,745</u>
Current	11,745	11,745
Non-current	-	-
	<u>\$11,745</u>	<u>\$11,745</u>

The employee entitlements have been included in accrued expenses, which are included in note 14.

17. Financial instruments

Credit risk

The NZVIF Group has minimal credit risk in its holdings of various financial instruments. These instruments include cash, bank deposits, and accounts receivable. The Board places its investments with institutions that have a high credit rating.

Concentration of credit risk

The NZVIF Group is not exposed to any concentrations of credit risk.

Fair values

Except for Investments through VIF Seed Funds, which are stated at cost, less, where appropriate, provision for impairment, there is no difference between the fair value and carrying amounts of financial instruments as disclosed in the Statement of Financial Position at 30 June 2003.

Credit facilities

The NZVIF Group did not have any credit facilities at 30 June 2003.

Foreign currency risk

The NZVIF Group is not exposed to significant foreign exchange risk as a result of transactions denominated in foreign currencies arising from normal trading activities.

The NZVIF Group records the transactions using the exchange rate applicable at the date of the invoice and recognises an exchange gain or loss at the time of payment. As there are a small number of transactions denominated in foreign currencies, the NZVIF Group does not take out any forward cover.

Interest rate risk

At balance date, the NZVIF Group was not exposed to any interest rate risk.

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

18. Employee remuneration

The number of employees who received remuneration and other benefits of \$100,000 or more per annum, shown in \$10,000 ranges.

	Group 2003	Parent 2003
100,000 – 109,999	-	-
110,000 – 119,999	-	-
120,000 – 129,999	-	-
130,000 – 139,999	-	-
140,000 – 149,999	-	-
150,000 – 159,999	-	-
160,000 – 169,999	-	-
170,000 – 179,999	-	-
180,000 – 189,999	-	-
190,000 – 199,999	1	1

The general manager's remuneration and benefits is in the \$190,000 – \$199,999 band.

19. Directors remuneration

Member	Group 2003	Parent 2003
John Grant	66,017	66,017
Peter Taylor	27,563	27,563
June McCabe	11,915	11,915
Grant Ryan	13,950	13,950
	<u>\$119,445</u>	<u>\$119,445</u>

These fees cover attendance at six full Board meetings, ten Board conference calls, as well as additional duties undertaken by the Chairman and Deputy Chairman during the establishment phase of the VIF programme.

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

20. Commitments

Capital commitments

	Group 2003	Parent 2003
Estimated capital expenditure contracted for at balance date but not provided for:		
Firm commitment	41,951,516	-
Conditional commitment	30,000,000	-
	<u>\$71,951,516</u>	<u>\$-</u>

NZVIF (TMT) Limited has a firm commitment to invest \$15,000,000 over the next 10 years, of which \$2,527,149 has been invested. NZVIF (EIP) Limited has a firm commitment to invest \$10,000,000 over the next 10 years, of which \$234,023 has been invested. NZVIF (IGT) Limited has a firm commitment to invest \$10,000,000 over the next 10 years. NZVIF (No 8) Limited has a firm commitment to invest \$10,000,000 over the next 10 years, of which \$287,312 has been invested. There are also conditional commitments for NZVIF (EIP) Limited, NZVIF (IGT) Limited and NZVIF (No 8) Limited to invest a further \$10,000,000 each over the next 10 years provided the fund manager obtains matching capital on a one to two basis by 30 September 2003.

Included in these commitments are the funds' management fees and establishment costs.

Operating lease commitments

Lease commitments under non-cancellable operating leases:

	Group 2003	Parent 2003
Less than one year	31,000	31,000
Total Operating Lease Commitments	<u>\$31,000</u>	<u>\$31,000</u>

21. Contingent liabilities

There were no contingent assets or liabilities at the date of issue of this report.

22. Events subsequent to balance date

There were no events subsequent to balance date.

Notes to the Financial Statements continued

For The Year Ended 30 June 2003

23. Major budget variations

At the beginning of the year NZVIF prepared forecasts for total equity investments through VIF Seed Funds and total management fees to be paid to VIF Seed Fund managers. Actual expenditure for equity investments through VIF Seed Funds and management fees paid to fund managers has been recorded in the subsidiaries of NZVIF, as each VIF Seed Fund was established.

As a consequence of the investors in the IO Fund exercising the buy-out option prior to year end, there are a number of variations between the actual and budgeted results of NZVIF. The buy-out was comprised of return of investment funds, gain on investment, and reimbursement of fund costs.

The return of investment funds enabled NZVIF to meet calls for funds from the other VIF Seed Funds without needing to make additional calls on the Government for an increase in their share capital. The excess funds are currently being held in NZVIF's bank account.

As a result of some activities, that were originally forecast to occur in the 2002/03 financial year, being transferred to the 2003/04 financial year it was agreed with the Ministry of Research, Science and Technology (MoRST) that \$100,000 of revenue from the 2002/03 financial year be received in 2003/04.

Shareholder Information

For The Year Ended 30 June 2003

Substantial security holders

The Crown is registered by the NZVIF Group as a substantial security holder owning 100% of the parent company.

Largest security holder

	Shares Held	Percentage
Crown	100	100%

Use of company information

Pursuant to section 145 of the Companies Act the Board recorded no notices from Directors requesting to use the company information received in their capacity as Directors that would not otherwise have been available to them.

Indemnification and insurance of directors and officers

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, the company has given indemnities to, and has effected insurance for, Directors and executives of the company and its related companies which, except for specific matters which are expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions undertaken by them in the course of their duties.

Specifically included are certain matters, such as the incurring of penalties and fines, which may be imposed for breaches of law.

Directors' Interests

As at 30 June 2003

The following are general disclosures of interest given by Directors of the company pursuant to section 140(2) of the Companies Act 1993 as at 30 June 2003:

John Grant

Executive Chairman	Grantham Capital Pty Ltd and associated entities
Chairman	Biota Holdings Limited
Director	Colonial First State Private Capital Ltd
Director	John Swire and Sons Pty Limited
Director	Ambri Limited

Peter Taylor

Chairman	Public Trust
Chairman	Gas Investments (NZ) Limited
Chairman	Martin, Jenkins & Associates Limited
Commissioner	Commerce Commission
Director	Isaac Construction Limited and subsidiary companies
Director	Port Marlborough New Zealand Limited and subsidiary companies

June McCabe

Chairperson	Payworks Limited
Director	Business in the Community
Director	Corporate Affairs, Westpac Banking Corporation
Director	Asure NZ
Director	E Centre Incubator
Director	Advanced Dynamics (New Zealand) Ltd
Trustee	NZ Business & Parliament Trust
Trustee	General Church Board Trust
Trustee	Westpac NZ Staff Superannuation Scheme
Tribal Affiliations	Ngapuhi, Te Rarawa, Te Aupouri and Hapu; Ngati Kahu and Ngati Kaharau

Grant Ryan

Chairman	SLI Systems Inc (US)
Managing Director	RealContacts Limited
Director	Boulevard Web Systems Limited
Director	Foundation for Research, Science and Technology

There were no specific disclosures given pursuant to section 140(1) of the Companies Act 1993.

Conflict of Interest Procedures

For The Year Ended 30 June 2003

The NZVIF Board has a documented conflict of interest policy that sets out procedures for identifying and addressing potential conflict of interests. This policy applies to the directors and staff of NZVIF.

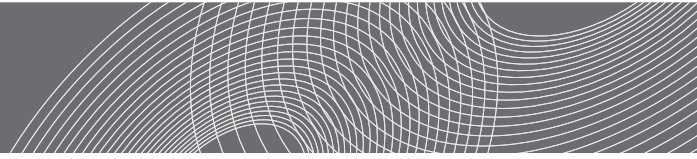
The key determination when considering whether an interest might create a conflict is whether the interest creates an incentive for the director or staff member to act in a way that may not be in the interests of NZVIF.

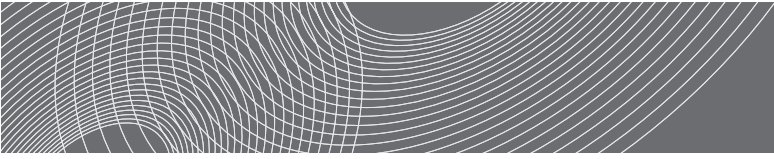
In deciding whether a conflict is present in any given situation it is appropriate that the determination be whether a reasonably informed objective observer would infer from the circumstances that the board or staff member's judgement is likely to be influenced to the detriment of NZVIF's best interests.

Where a conflict exists, then the director or staff member must declare the conflict and may not participate or vote on any matters in which they have a conflict of interest.

An interests register is maintained of the directors' declared interests and updated at each Board meeting.

Notes





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