B: 34

NEW ZEALAND venture INVESTMENT FUND LIMITED

# Statement of Performance Expectations

# 2014–2015

A vibrant and self-sustaining New Zealand angel and venture capital investment market, investing in high growth companies and contributing to New Zealand's economic prosperity.

# NZVIF – WHAT WE DO

## NZVIF ROLES – INVESTMENT MANAGEMENT & MARKET DEVELOPMENT

NZVIF is the Crown's lead investment agency addressing the capital market gap for high growth New Zealand companies that require new risk capital (equity and quasi equity) for growth.

NZVIF manages $300 million of capital[1] which is invested at the early stage end of private capital markets, from the point a new company is established, through to the time the company has no further need for risk capital.

NZVIF also plays a significant role in early stage capital market development, including industry infrastructure development, supporting investment best practice, and investor capability building.

## OUR PROGRESS SO FAR – OVER 165 COMPANIES

Prior to NZVIF's establishment, investment capital for emerging high growth companies was scarce with negligible levels of angel and venture capital investment in New Zealand. Since the inception of NZVIF in 2002, NZVIF has partnered with 14 angel investment networks and 8 venture capital fund managers. While venture capital fund raising slowed considerably during the global financial crisis, three new funds were established in 2012-13 with further new funds in the pipeline.

The portfolio of companies in which we have invested, directly and indirectly, numbers 167.

Currently, nine companies have annual revenues of over $10 million and four over $20 million. Eighty percent of revenues generated are from exports.

Examples of companies that NZVIF has invested in include:

- health software designer **Orion Health**;
- specialist software company **Booktrack**;
- wireless charging **powerbyProxi**;
- internet search engine **SLI systems**;
- premium beverage company **Moa Brewing**; and
- regenerative medicine company **Mesynthes.**

[1] $200 million commitment plus $100 million underwrite

# OUR STRATEGIC FRAMEWORK: WHAT WE ARE TRYING TO ACHIEVE AND HOW WE PLAN TO ACHIEVE IT

**OUTCOME**

BY 2025:
A vibrant and self sustaining New Zealand angel and venture capital investment market, investing in high growth companies and contributing to New Zealand's economic prosperity

**IMPACTS**
How outputs contribute to our outcome

- Increased levels of private capital invested into high growth companies
- Increased number of experienced and professional investors who are active in the industry
- An environment conducive to early stage investment
- Increased number of successful high growth companies

**OUTPUTS**
What we will do

- Attract capital - catalyse new sources of investment capital
- Establish partnerships – select, contract and develop investment grade fund managers and partners
- Work with industry stakeholders – to develop the market and improve investment conditions
- Make and manage investments – co-invest into eligible industries and stages

**INPUT**
What we get from Government

- $260m for the Venture Capital Fund
- $40m for the Seed Co-investment Fund
- $2.33m annual operating budget

# SERVICE PERFORMANCE & FINANCIAL MANAGEMENT

The following statements provide targets, budgets and performance measures for the year ending 30 June 2015 in accordance with s142 of the Crown Entities Act:

Statement of performance expectations.

Statement of forecast comprehensive revenue and expense.

Statement of forecast movements in equity.

Statement of forecast financial position.

Statement of forecast cash flows.

Notes to the financial statements.

There are no other relevant statements which need to be devised or disclosed (ss142(1)(c) and (e)).

## STATEMENT OF PERFORMANCE EXPECTATIONS

NZVIF's output agreement with the Minister for Economic Development contains one output that is 'Investment Fund Management – Governance and Operation'. We will receive $2.33m (GST exclusive) in Crown funding in 2014-2015 ($2.33m in 2013-2014).

To achieve our Outcome as per the Statement of Intent, we will provide the following four outputs:

1. **Attract capital** – catalyse new sources of investment capital.
2. **Establish partnerships** – select, contract and develop investment grade fund managers and investment partners.
3. **Work with industry stakeholders** – to develop the market and improve investment conditions.
4. **Make and manage investments** – co-invest into eligible industries and stages.

We deliver the output purchased by the Minister for Economic Development through the administration and monitoring of the NZVIF Venture Capital and the NZVIF Seed Co-investment Funds.

We will report against qualitative and quantitative measures in the 2014-2015 Annual Report.

## OUTPUT ONE: ATTRACT CAPITAL - CATALYSE NEW SOURCES OF INVESTMENT CAPITAL

- We will implement mandate changes and develop new investment products that will attract additional investment to existing and new funds and partnerships.

| Quantity Measures | Actual 10/11 | Actual 11/12 | Actual 12/13 | Estimated Actual 13/14 | Forecast 14/15 |
|---|---|---|---|---|---|
| NZVIF mandate changes implemented | 1 | 2[2] | 1[3] | 0 | 1 |
| Investment products developed – Angel and VC | 0 | 1[4] | 0 | 0 | 2 |

**Quality Measure**

Venture Capital funds and angel partnerships successful in attracting capital from new sources.

- The co-fund established with Taiwan's NDF is a significant step to add new pools of capital in the VC environment.
- The momentum of this arrangement has continued through the year with several engaged parties from both New Zealand and Taiwan.

---

[2] *Seed Co-investment fund mandate amended to allow investment to increase to maximum of $750,000up from $500,000. Also, Cabinet approved a VC mandate change to enable NZVIF to co-invest with Taiwan's NDF.*

[3] *$60m extension on the VC underwrite.*

[4] *Assisted government agencies on a Memorandum of Understanding signed to enable Taiwan's NDF and NZVIF to establish a co-fund.*

## **OUTPUT TWO:** ESTABLISH PARTNERSHIPS – SELECT, CONTRACT AND DEVELOP INVESTMENT GRADE FUND MANAGERS AND INVESTMENT PARTNERS

- We will perform a robust selection methodology and due diligence process, implement best practice investment documentation, play an active role in investor governance and select credible lead investors to represent us.

| Quantity Measures | Actual 10/11 | Actual 11/12 | Actual 12/13 | Estimated Actual 13/14 | Forecast 14/15 |
|---|---|---|---|---|---|
| Number of due diligence completed - Angel and VC | 8 | 6 | 1 | 3 | 3 |
| New venture capital funds contracted | 1 | 2 | 1[5] | 0 | 1 |
| New angel partnerships established | 1 | 2 | 0 | 0 | 1 |

**Quality Measure**

Funds and investment partnerships that NZVIF has entered into are supported by private investors.

- During 2013/14 NZVIF completed a full due diligence assessment on one Seed Co-Investment Fund application, with a formal recommendation expected before year end.
- NZVIF also completed due diligence on 2 venture capital funds in association with the Taiwan Co-fund.

[5] *PCP II – the 2nd fund raised by an existing NZVIF VC Fund Manager.*

## **OUTPUT THREE:** WORK WITH INDUSTRY STAKEHOLDERS - TO DEVELOP THE MARKET AND IMPROVE INVESTMENT CONDITIONS

- We will support industry professional development programmes and one off initiatives that will assist in building industry standards and professionalism.
- We will advise Government on policy changes to improve the investment environment.

| Quantity Measures | Actual 10/11 | Actual 11/12 | Actual 12/13 | Estimated Actual 13/14 | Forecast 14/15 |
|---|---|---|---|---|---|
| Industry development initiatives undertaken in conjunction with NZVCA and AANZ. | 2 | 2 | 4[6] | 2 | 2 |
| Advice provided to Government to assist market development. | 0 | 1[7] | 2[8] | 0 | 1 |

**Quality Measure**

Best practice initiatives accepted and adopted by the industry; Dissemination of angel investing best practice to NZVIF investment partnerships.

- NZVIF sponsored two visitors from the United States that were supported by the industry:
    - Prominent US Angel investor Dan Rosen was in New Zealand for a week in August, running a workshop in Auckland as well as facilitating at the Lead Investors Forum run by the ICE House in Auckland and Wellington.
    - Another prominent US Angel investor, Bill Payne, returned to New Zealand in late October for 3 weeks, attending the Angel Association NZ summit in Dunedin as a guest speaker, running a number of workshops around the country as well as

---

[6] *NZVIF sponsored Rob Adams-the US based entrepreneur and active investor, and supported workshops led by him on market validation for early stage companies in July 2012. NZVIF sponsored the visit to NZ by US angel investor Bill Payne in November 2012. NZVIF was also involved in developing a PE and VC performance benchmark as well as international best practice reporting guidelines. (see table 2, Impact 3)*

[7] *The New Zealand Commerce and Industry Office and the Taiwan Economic and Cultural Office signed a Memorandum of Understanding (MOU) on 6 March 2012. This MOU allows the establishment of a Co-Fund by NZVIF and NDF as the implementing agencies.*

[8] *NZVIF made a submission to MBIE on the KiwiSaver Default Provider Arrangements Discussion Document, supporting the submission by the NZVCA. The submission identified design changes that would make the private equity and venture capital investments more accessible for KiwiSaver schemes. NZVIF also provided an independent (Fidato) summary report to ministers on Institutional Investment in VC and Private Equity in NZ and barriers to participation.*

participating in an NZVIF Investor Representative workshop in Auckland.

## **OUTPUT FOUR:** MAKE AND MANAGE INVESTMENTS - CO-INVEST INTO ELIGIBLE INDUSTRIES AND STAGES

- We will make portfolio investments in line with our mandate.
- We will manage investments to optimize portfolio returns**.**

| **Quantity Measures** | **Actual** 10/11 | **Actual** 11/12 | **Actual** 12/13 | **Estimated Actual** 13/14 | **Forecast** 14/15 |
|---|---|---|---|---|---|
| Number of new companies receiving investment | 26 | 18 | 20 | 23 | 17 |
| Total number of investments in companies | 46 | 48 | 51 | 64 | 65 |

**Quality Measures**

Over 90% of the NZVIF investment portfolio (by number) in seed, start-up and early expansion stage investments.

- Currently over 95% of NZVIF investments are in seed, start-up and early expansion stage. Investments have been made predominantly into software and services ($28m), biotechnology ($20m), technology hardware ($11m), healthcare ($11m) and telecommunications ($3m).

100% of investment transactions will meet NZVIF eligibility criteria.

- All investments are consistent with NZVIF mandate requirements.

# STATEMENT FROM THE BOARD OF DIRECTORS

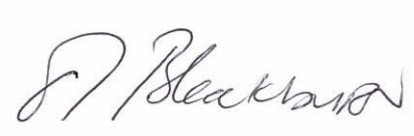
This Statement of Performance Expectations for the period 1 July 2014 to 30 June 2015 is submitted pursuant to the Crown Entities Act 2004. The forecast financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZGAAP).

The underlying assumptions of this document have been authorised as appropriate for issue by the Board of Directors of the New Zealand Venture Investment Fund Limited in accordance with its role under the Crown Entities Act 2004.

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

**Murray Gribben**
Chair

May 2014



**Anne Blackburn**
Deputy Chair

May 2014

# FORECAST FINANCIAL STATEMENTS

## STATEMENT OF FORECAST COMPREHENSIVE REVENUE AND EXPENSE
## FOR THE YEAR ENDED 30 JUNE 2015

| | Group 2015 | Parent 2015 |
|---|---|---|
| Revenue | 2,452,406 | 2,452,406 |
| Administrative expense | (2,495,407) | (2,495,407) |
| Management fees and fund costs | (2,604,636) | (2,604,636) |
| Depreciation and amortisation | (43,180) | (43,180) |
| **Total expenses** | (5,143,223) | (5,143,223) |
| Realised gain/(loss) on sale of investments | – | – |
| Net unrealised gain/(loss) in the value of investments | 500,000 | – |
| Impairment of related party loans | – | – |
| Deficit before taxation | (2,190,817) | (2,690,817) |
| Income tax expense | – | – |
| **Total comprehensive revenue and expense for the year** | **($2,190,817)** | **($2,690,817)** |

## STATEMENT OF FORECAST MOVEMENTS IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2015

| | Group 2015 | Parent 2015 |
|---|---|---|
| Equity – at the beginning of year | 121,136,974 | 110,237,780 |
| Total comprehensive revenue and expense for the year | (2,190,817) | (2,690,817) |
| Increase in share capital | 6,240,876 | 6,240,876 |
| **Equity – at the end of year** | **$125,187,033** | **$113,787,839** |

## STATEMENT OF FORECAST FINANCIAL POSITION
## AS AT 30 JUNE 2015

| | Group 2015 | Parent 2015 |
|---|---|---|
| Equity | $125,187,033 | $113,787,839 |
| Represented by | | |
| *Current Assets* | | |
| Cash and cash equivalents | 5,465,142 | 5,465,142 |
| Receivables and prepayments | 23,392 | 23,392 |
| | 5,488,534 | 5,488,534 |
| *Non-current assets* | | |
| Property, plant, equipment | 202,660 | 202,660 |
| Intangible assets | 31,675 | 31,675 |
| Related Party Loans | – | 108,220,806 |
| Investments | 119,620,000 | – |
| | 119,854,335 | 108,455,141 |

| | | |
|---|---|---|
| Total assets | 125,342,869 | 113,943,675 |
| *Current Liabilities* | | |
| Payables and accruals | 155,836 | 155,836 |
| Total liabilities | 155,836 | 155,836 |
| Net assets | $125,187,033 | $113,787,839 |

# STATEMENT OF FORECAST CASH FLOWS
# FOR THE YEAR ENDED 30 JUNE 2015

| | Group 2015 | Parent 2015 |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| Cash was provided from: | | |
| Revenue from the Crown | 2,330,000 | 2,330,000 |
| Interest & other income | 122,406 | 122,406 |
| | 2,452,406 | 2,452,406 |
| Cash was applied to: | | |
| Payments to suppliers | (3,862,633) | (3,862,633) |
| Payments to employees | (1,237,414) | (1,237,414) |
| | (5,100,047) | (5,100,047) |
| **Net cash flows from operations** | (2,647,640) | (2,647,640) |
| ***Cash flows from investing*** | | |
| Cash was provided from: | | |
| Sale of investments through NZVIF Venture Capital Funds | 11,000,000 | – |
| Cash was applied to: | | |
| Purchase of property, plant and equipment | (143,180) | (143,180) |
| Purchase of investments – Venture Capital Fund | (9,250,000) | – |
| Purchase of investments – Seed Co-investment Fund | (5,400,000) | – |
| Loans to subsidiaries | – | (3,650,000) |
| | (14,793,180) | (3,793,180) |
| **Net cash flows from investing** | (3,793,180) | (3,793,180) |
| ***Cash flows from financing*** | | |
| Cash was provided from: | | |
| Increase in share capital | 6,240,876 | 6,240,876 |

| | | |
|---|---|---|
| **Net cash flows from financing** | 6,240,876 | 6,240,876 |
| **Net increase/decrease in cash and cash equivalents** | (199,945) | (199,945) |
| Cash and cash equivalents at the beginning of the year | 5,665,087 | 5,665,087 |
| **Cash and cash equivalents at the end of the year** | 5,465,142 | 5,465,142 |

# NOTES TO THE FORECAST FINANCIAL STATEMENTS

## REPORTING ENTITY

New Zealand Venture Investment Fund Limited and its subsidiaries are companies incorporated in New Zealand under the Companies Act 1993.

The parent company – New Zealand Venture Investment Fund Limited – and its subsidiaries are referred to throughout these financial statements as NZVIF. NZVIF is domiciled in New Zealand.

The primary objective of NZVIF is the development of a vibrant early stage capital market, both formal (venture capital) and informal (angel). NZVIF has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The registered office for NZVIF is Unit 1B, Ascot Office Park, 93-95 Ascot Avenue, Greenlane, Auckland.

The forecast financial statements of the company are for the year ended 30 June 2015.

## BASIS OF PREPARATION

### Statement of compliance

The prospective financial statements are prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Crown Entities Act 2004. They comply with New Zealand Generally Accepted Accounting Principles (NZGAAP) including FRS 42.

These are the first set of prospective financial statements presented in accordance with Public Benefit Entity (PBE) standards.

The prospective financial statements are for the Statement of Service Performance for the 2014/2015 year therefore, actual results are not reflected. NZVIF is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

The information contained in the financial statements is not suitable to be used for any purpose other than to give an indication of the magnitude of the company's financial requirements for the period of the Statement of Intent.

The actual financial results for the period covered are likely to vary from the information presented and the variations may be material.

## Measurement base

These financial statements have been prepared on an historical cost basis, except where modified by the revaluation of certain items of property, plant and equipment, and the measurement of financial assets at fair value.

## Presentation currency

These financial statements are presented in New Zealand dollars ($).

## Judgments and estimations

In preparing these financial statements NZVIF has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

# SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies, which materially affect the measurement of financial performance, financial position and cash flows, have been applied consistently to all periods presented in these forecast financial statements.

## 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 parent's financial statements investments in subsidiaries are valued at cost.

## Revenue recognition

Revenue is recognised as follows:

### Revenue from the Crown

Revenue is recognised to the extent that it is probable that the economic benefits will flow to NZVIF and the revenue can be reliably measured. Revenue shown in the Income Statement comprises the amounts received and receivable by NZVIF for services supplied to the Crown.

### Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial assets.

## Dividend income

Dividend income is recognised when the right to receive payment is established.

## Goods and services tax

The forecast consolidated financial statements of NZVIF 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 most of the subsidiaries are not registered for GST.

## Taxation

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Current tax and deferred tax is charged or credited to the Income Statement, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

## Cash & cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks both domestic and international, other short-term, highly liquid investments, with original maturities of three months or less and bank overdrafts.

## Accounts receivable

Accounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment losses due to bad and doubtful accounts.

## Prepayments

Prepayments consist of management fees invoiced or paid, for the first quarter of the next year, and director's liability insurance paid in advance. Prepaid directors' liability insurance is expensed on a straight-line basis over the term of the insurance policy.

## Property, plant and equipment

### Owned assets

Items of property, plant and equipment are measured at cost less aggregate depreciation and impairment losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

### Subsequent costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company and the cost of the item can be measured reliably. All other costs are recognised in the Income Statement as an expense as incurred.

### Depreciation

Depreciation is charged using the diminishing value method at the following rates:

| | |
|---|---|
| Computer equipment | 60% |
| Office equipment | 18%-60% |
| Leasehold improvements | 9%-36% |

### Impairment of non-financial assets

Assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## Intangible Assets

### Software acquisition

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of the Company's website are recognised as an expense when incurred.

### Software development

NZVIF capitalises the direct costs associated with the development of network and business software for internal use where project success is regarded as probable. Capitalised costs include external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project and interest costs incurred while developing the software. Software developed for internal use is depreciated over its useful life.

### Amortisation

Computer software is amortised at a diminishing value rate of 60%. Amortisation begins when the asset is available for use and ceases at the date that the asset is disposed of. The amortisation charge for each period is recognised in the Statement of Comprehensive Income.

Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated or the carrying value is impaired.

## Investments

Investment assets held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Income Statement.

### NZVIF Venture Capital Funds

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

The fair value of NZVIF venture capital fund investments has been determined by NZVIF in accordance with IPEV guidelines.

The IPEV recommends that investors in private equity and venture capital funds should use the fund managers reported valuation as an input in determining the fair value of their interest in the fund's investments. The IPEV also recommends that investors have the appropriate processes and controls in place to monitor the fund manager and assess the data received. The NZVIF Venture Capital Fund Managers are contractually required to report to NZVIF on an on-going basis and NZVIF monitors the performance and valuation of the portfolio. The reported fair value of the investment by each fund manager has been used as an input for the fair value assessment performed by NZVIF.

NZVIF has reviewed the process undertaken by the NZVIF Venture Capital Fund Managers when valuing NZVIF investments and are satisfied that the valuation process complies with the fund managers' contractual requirements.

### NZVIF Seed Co-investment Fund

NZVIF co-invests, alongside private sector investors, in seed and start-up stage investments and these investments represent equity owned directly through a 100% owned NZVIF subsidiary. NZVIF is a passive investor and does not make the initial investment decision or take a seat on investee company boards; these roles are undertaken by NZVIF's co-investment partners. However NZVIF reserves certain shareholder rights and may make subsequent investment decisions in certain circumstances.

As at 30 June 2015 the valuation of the Seed Co-investment Fund's investments is based on the price of the most recent investment made by external investors, unless there is evidence that the value of the investment should be adjusted as the performance of the investment is significantly below the expectations on which the investment was based, leading to a diminution in value.

NZ IFRS and NZ IAS make specific reference to investments held by venture capital organisations and that all investments must be recognised at fair value, except for those where control exists. Under NZ IFRS, an investment by a venture capital organisation is considered to be a financial instrument. The appropriate standard dealing with investment in associates is not applicable and the financial instruments standard applies.

## 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 Income Statement in equal installments over the term of the lease.

## Foreign currencies

Transactions denominated in a foreign currency are converted at the functional currency exchange rate at the date of the transaction.

Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to New Zealand dollars at the foreign exchange rate ruling at that date.  Foreign exchange differences arising on their translation are recognised in the Statement of Comprehensive Income.

## Financial instruments

Non-derivative financial instruments comprise investments in shares, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Regular way purchases and sales of financial assets are accounted for at trade date. i.e. the date the company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

NZVIF classifies its NZVIF Venture Capital Fund and NZVIF Seed Co-investment Fund investments under the category 'financial assets at fair value through profit or loss - designated as such upon initial recognition'. This is because NZ IAS39 indicates that investments held by venture capital organisations whose business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or from changes in their value, should be designated at fair value through profit and loss. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of Comprehensive Income in the period in which they arise.

## Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## 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.

## Statement of cash flows

The following are the definitions of the terms used in the Statement of Cashflows:

Cash is considered to be cash and cash equivalents net of bank overdrafts.

Investing activities are those relating to the acquisition, holding and disposal of property, plant & equipment and investments. Investments can include securities not falling within the definition of cash.

Financing activities are those activities that result in changes in the size and composition of the capital structure of NZVIF Limited. 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.

Operating activities include all transactions and other events that are not investing or financing activities.

## Segment information

A business segment is a group of assets or operations engaged in providing products or services that are subject to risks and rewards that are different from those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of a segment operating in other economic environments. NZVIF operates predominantly in the venture capital investment industry. All operations of the Company are carried out in New Zealand.

## Related party loans

NZVIF accounts for related party loans at their cost less impairment, with impairment based on the underlying value of the subsidiaries venture capital investments, which will have been purchased through the loan funding. This treatment is permitted following the assessment that the loans are outside the scope of NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The accounting treatment for the loans is in accordance with the cost model of an investment in a subsidiary under NZ IAS 27 *Separate and Consolidated Financial Statements*, which gives an entity the option of accounting for an investment in a subsidiary either at cost (less impairment) or under NZ IAS 39. Furthermore, the terms of the loans are no interest with limited recourse of repayment. Accordingly the loans have characteristics similar to an equity instrument. A further consideration in carrying related party loans at cost (less impairment) is that their fair value cannot be reliably determined at initial recognition due to difficulties in forecasting the obligations to repay the loans and the timing of such repayments.