

CREATIVE|HQ

STATEMENT OF INTENT

2016 / 2017

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BUSINESS CONTEXT AND STRATEGIC DIRECTION

Creative HQ is a limited liability company with Grow Wellington as its 100% shareholder. The company has an independent Board and a specialist team of 15 members of staff and a budget of approx. \$2.74 million for the 2015/16 financial year.

Since its inception in 2003, Creative HQ has supported hundreds of startup companies through its business incubator, bootcamp programme, Venture Up programme and through Creative HQ's Lightning Lab digital accelerator. The performance of 59 of the businesses that have exited Creative HQ's programmes (known as the "Creative HQ Alumni") is actively tracked and reported to Creative HQ's funding partners. For FY2014/15, Creative HQ Alumni companies generated total revenues of \$20.7m with export revenues of \$8.6m. Collectively the Creative HQ Alumni employed 212 FTE staff for the 2014/15 financial year.

Historically, funding from Callaghan Innovation and Grow Wellington has supported Creative HQ's core activities. Other programmes such as Lightning Lab, Entrepreneurship Bootcamps with Victoria University and Venture Up have been funded through sponsorships, grants and direct investment from the private sector.

Creative HQ has a strong track record and financial performance and is well positioned to play a much bigger role in the startup ecosystem and to have a more significant impact on the high growth venture economy in Wellington and New Zealand. The funding landscape for Creative HQ is also likely to change in the medium term and Creative HQ's strategic direction reflects the need to supplement public sector funding with incremental revenue streams from other sources.

ABOUT US

OUR PURPOSE

Creative HQ exists to significantly increase the number of successful entrepreneurs and viable startups in NZ by working with early stage founders and ventures who have yet to realise their talents, skills and brilliance.

OUR VISION

To create a vibrant economy fuelled by successful high growth, high tech ventures that operate internationally and contribute to NZ's long term wealth.

OUR MISSION

Creative HQ is proud to be Wellington based, creating benefits for the region while also making use of opportunities to boost the wider startup ecosystem in New Zealand.

To achieve its long-term vision, Creative HQ will:

- Specialise in lean innovation (startup innovation) to become the innovation engine for startups, small business and large organisations;
 - Focus on 4 key business functions to tackle specific startup ecosystem needs:
 - Business incubation through our Incubation business unit
 - Business acceleration through our Acceleration business unit
 - Innovation, education and community engagement through our Customer Engagement business unit
- Operations to support all other business units
- Use the lean startup methodology as a guiding principle for all programmes we run
- Encourage serial entrepreneurship to ensure Wellington (and NZ Inc) benefit from the learning, knowledge and experience in creating high growth ventures that is developed through repeated company creation and exits
- Work collaboratively with other organisations and individuals to maximize Creative HQ's impact on the startup ecosystem in the Wellington region and throughout NZ

OUR VALUES

The following core values represent Creative HQ's way of being. These behaviours and actions reflect what we expect from each other and how we engage with our key customer groups:

VALUE	BEHAVIOURS, ATTITUDES, ACTIONS
BOLD	We are prepared, present, follow through, are open for feedback and ask for help.
INVESTED	We focus on action, commit to act, we are shoulder to shoulder with clients, are available, share the struggle, take interest and prepare our interactions well.

CONNECTING

We are active in our interactions, we invest in and maintain our relationships, we open doors and are ultra-approachable.

OUR POINT OF DIFFERENCE

Creative HQ is the premium choice for Wellington's start-up teams, entrepreneurs and innovative enterprises. Our points of difference are:

- Our clear value proposition, modular incubation programme (with 4 key modules) and time-bound stage-gated incubation processes to drive ventures to succeed or fail fast in business
- Our acceleration programmes which are based on the TechStars acceleration model with Creative HQ as the only license holder in NZ
- Our commitment to the development of entrepreneurial talent through experiential and immersive programmes;
- Our excellent networks and relationships with investors, mentors, corporates, universities and collaborative ecosystem partners; and
- Our deep and diverse expertise in starting and running high growth ventures based on personal experience of running our own businesses in the past.

NATURE AND SCOPE OF CREATIVE HQ'S ACTIVITIES

In 2015/16 we will continue delivering and expanding our successful incubation, acceleration and customer engagement services.

INCUBATION

Creative HQ is a market driven organisation with an investor led mind-set focusing on founder-led programmes. We have run a successful incubation programme for over ten years in the Wellington region that has produced an average of 7 high growth companies per year with an average of 22 months in the incubator. Our programme has been independently monitored and assessed on an annual basis by our core funding organisations (New Zealand Trade and Enterprise, Callaghan Innovation and Grow Wellington).

We work at the nexus of three areas that we believe are critical to high-productivity-based economic growth, these are:

- Successfully building entrepreneurial capability and teams through education and smart connections;
- Successfully taking knowledge, IP and new innovations to market through start-ups;
- Successfully positioning entrepreneurs with investors and preparing ventures for investment.

The ventures and teams we select for our incubation programmes are best of breed ideas and entrepreneurial talent that aim to change industries and revolutionise markets with business models that will defy their competitors and detractors. The entrepreneurs we work with are first class, motivated and driven to build high growth businesses out of Wellington.

The services we offer under our Incubation Business Unit are

GLOBAL GROWTH PROGRAMME a modular incubation programme for startups with high growth potential to build value and gain access to knowledge, networks and capital. The programme consists of three time-bound modules with an assessment of an incubatee's progress at the end of each module. Ventures in the programme that don't stay on a high growth path are exited.

STARTUP SESSIONS 6-weeks of workshops for aspiring entrepreneurs who want to validate a business idea before committing further time and resources into building a startup.

ACCELERATION

Startup 'acceleration' is where the urgency and energy of The Amazing Race meets the structure and rigor of business incubation, condensed into a short timeframe.

Acceleration provides a structure that brings focused support at the right time for the business and prepares companies for investors.

Creative HQ is part of the Global Accelerator Network (GAN). As such we have unique insight into lessons learnt and best practices acquired by GAN over the last decade. NZ is on the verge of a step change in entrepreneurial activity and capability. To complete this step change a range of activities are required. Our acceleration programmes are designed to facilitate and drive this process in NZ.

In order to transform NZ's startup ecosystem and achieve a step change in entrepreneurial talent and capability, we will deliver the following programmes:

LIGHTNING LAB Our main acceleration programme for startups – now in its 3rd year has been expanded to run in other locations (Auckland) in the current financial year. In 2015/16, the programme will continue to expand to Christchurch as well as coming back to Wellington and Auckland.

VENTURE UP A full immersion 6-week accelerator programme for Young Enterprise Scheme alumni focusing on experiential entrepreneurial education. Following the successful pilot in the current financial year we will expand this programme to run in other locations and with other organisations working in youth development making it accessible to a wider range of students.

CUSTOMER ENGAGEMENT

Our Customer Engagement team is dedicated to supporting and nourishing the startup communities in Wellington and beyond. Programmes we run out of Customer Engagement include:

STARTUP GARAGE a public speakers and event series for the startup curious who are keen to learn from industry experts, connect with others in the ecosystem and take a look inside local high-growth startups to see how they run first-hand.

BUILT IN WELLINGTON an online platform for the startup curious to share news, find events and discover resources for everything startup.

INNOVATION SERVICES innovation as a service is for large organisations looking to develop and execute innovative digital solutions in a short time frame using startup thinking, design thinking and the Lean Startup methodology.

PERFORMANCE TARGETS AND MEASURES

Please note the commentary on targets and measures on the next page

	2015/2016	2016/2017	2017/2018
INCUBATION	<ul style="list-style-type: none"> 12 new ventures starting incubation programmes with Creative HQ 4 high growth exits No more than 25% ventures in incubation more than 24 months Creative HQ's portfolio value exceeds \$1.1m 	<ul style="list-style-type: none"> 14 new ventures starting incubation programmes with Creative HQ 5 high growth exits No more than 25% ventures in incubation more than 24 months Creative HQ's portfolio value exceeds \$1.2m 	<ul style="list-style-type: none"> 15 new ventures starting incubation programmes with Creative HQ 6 high growth exits No more than 25% ventures in incubation more than 24 months Creative HQ's portfolio value exceeds \$1.5m
ACCELERATION	<ul style="list-style-type: none"> 50 entrepreneurs attending Lightning Lab / acceleration programmes 50% of Lightning Lab teams receive investment offers on Demo Day \$3M of investment raised six months post Demo Day (for Lightning Lab teams) 150+ mentors registered for Lightning Lab 	<ul style="list-style-type: none"> 60 entrepreneurs attending Lightning Lab programmes 50% of Lightning Lab teams receive investment offers on Demo Day \$3.5M of investment raised six months post Demo Day (for Lightning Lab teams) 200+ mentors registered for Lightning Lab 	<ul style="list-style-type: none"> 80 entrepreneurs attending Lightning Lab programmes 50% of Lightning Lab teams receive investment offers on Demo Day \$4M of investment raised six months post Demo Day (for Lightning Lab teams) 250+ mentors registered for Lightning Lab
CUSTOMER ENGAGEMENT	<ul style="list-style-type: none"> 30 Students attending Venture Up programme 	<ul style="list-style-type: none"> 50 students attending Venture Up programme 	<ul style="list-style-type: none"> 75 students attending Venture Up programme
CHQ OVERALL METRICS	<ul style="list-style-type: none"> 110 Creative HQ alumni ventures (including LL ventures) \$21M collective revenues of Creative HQ alumni ventures (of which \$7.5M are classified as revenues from overseas sources) 150 FTEs collectively working for Creative HQ alumni ventures 	<ul style="list-style-type: none"> 125 Creative HQ alumni ventures (including LL ventures) \$22M collective revenues of Creative HQ alumni ventures (of which \$8M are classified as revenues from overseas sources) 175 FTEs collectively working for Creative HQ alumni ventures 	<ul style="list-style-type: none"> 150 Creative HQ alumni ventures (including LL ventures) \$25M collective revenues of Creative HQ alumni ventures (of which \$10M are classified as revenues from overseas sources) 200 FTEs collectively working for Creative HQ alumni ventures

COMMENTARY ON THE NEW AND PREVIOUS MEASURES

The following table provides a comparison between the 2014/15 KPIs and the proposed 2015/16 KPIs

	2015/2016	2016/2017	COMMENTS
INCUBATION	<ul style="list-style-type: none"> • 11 new ventures starting incubation programmes with Creative HQ • 4 high growth exits • No more than 25% ventures in incubation more than 24 months • Creative HQ's portfolio value exceeds \$1m 	<ul style="list-style-type: none"> • 12 new ventures starting incubation programmes with Creative HQ • 4 high growth exits • No more than 25% ventures in incubation more than 24 months • Creative HQ's portfolio value exceeds \$1.1m 	<ul style="list-style-type: none"> • Aiming for slightly higher throughput despite significantly reduced funding from CI – maintaining High Growth exits • Maintaining short incubation cycles • Continue drive to assist alumni (even after their exit from our incubation programme)
ACCELERATION	<ul style="list-style-type: none"> • 30 entrepreneurs attending Lightning Lab programmes • 50% of Lightning Lab teams receive investment offers on Demo Day • \$2.5M of investment raised six months post Demo Day (for Lightning Lab teams) • 100+ mentors registered for Lightning Lab 	<ul style="list-style-type: none"> • 50 entrepreneurs attending Lightning Lab / acceleration programmes • 50% of Lightning Lab teams receive investment offers on Demo Day • \$3M of investment raised six months post Demo Day (for Lightning Lab teams) • 150+ mentors registered for Lightning Lab 	<ul style="list-style-type: none"> • Extending the programme to other regions (AKL / CHCH) and other verticals • Maintaining international benchmarks of funding results on Demo Day • Increase in investment amount reflects more mature companies as a result of acceleration programme maturity • Regional extension resulting in more mentors
CUSTOMER ENGAGEMENT	<ul style="list-style-type: none"> • 50 students attending Digital Futures 	<ul style="list-style-type: none"> • 30 Students attending Venture Up programme 	<ul style="list-style-type: none"> • Changing focus to invest in high school / undergraduate education following funding awards for Venture Up
CHQ OVERALL METRICS	<ul style="list-style-type: none"> • 95 Creative HQ alumni ventures (incl. LL) • \$20M collective revenues of alumni • \$7.5M are classified as revenues from overseas sources) • 150 FTEs 	<ul style="list-style-type: none"> • 110 Creative HQ alumni ventures (including LL ventures) • \$21M collective revenues of Creative HQ alumni ventures (of which \$7.5M are classified as revenues from overseas sources) • 150 FTEs collectively working for Creative HQ alumni ventures 	<ul style="list-style-type: none"> • Reflecting “tidy up” and value uplift of alumni portfolio • Expecting increase in valuation for high performing companies in portfolio • Maintaining # of FTEs in portfolio

GOVERNANCE AND FINANCE

Statement of the Board's Approach to Governance:

The Board is responsible for the proper direction and control of the company's activities. The Board guides and oversees the business and affairs of Creative HQ on behalf of the shareholder, Grow Wellington, to whom it is accountable, within the framework of the mission and objectives set out in this Statement of Intent - being principally to provide specialist high growth venture services dedicated to supporting the maturing of NZ's startup ecosystem.

CREATIVE HQ BOARD

The structure of the Creative HQ Board has been agreed with the Grow Wellington / WREDA Board.

ROLE AND FUNCTION:

- Ensuring Creative HQ's financial viability and legal compliance in all matters
- Directing the company
- Upholding the vision for Creative HQ, establishing benchmarks for performance and monitoring them, and being accountable to shareholders and key stakeholders
- Supporting management with the execution of the Board's vision
- All Board directors strive to comply with the Code of Conduct set out in the New Zealand Institute of Director's Code of Proper Practice for Directors.

The current Board consists of Gerard Quinn (Chairman of the Board) representing Grow Wellington/WREDA as Creative HQ's shareholder, Susan Reynolds as an independent director, Barry Brook as an independent director, Brett Holland as an independent director and Victoria Crone as an independent director.

The Chief Executive Officer has the delegated responsibility for the operation of Creative HQ and is assisted by staff as required. Creative HQ may make use of external advisors from time to time.

GENERAL ACCOUNTING PRINCIPLES

Creative HQ has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by Grow Wellington. Chapter 6 of this document provides detailed information about Creative HQ's significant accounting policies.

INFORMATION PROVIDED TO GROW WELLINGTON / WREDA BY CREATIVE HQ

- Annual Statement of Intent
- Unaudited Half-yearly Report
- Annual Report
- Annual Financial Statements and Auditor's Report
- Additional reports and information as and when required

RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS, AND THE DEFINITION OF THOSE TERMS

Not applicable.

PROCEDURES TO BE FOLLOWED BEFORE ANY MEMBER OF THE GROUP SUBSCRIBES FOR, PURCHASES OR OTHERWISE ACQUIRES SHARES IN ANY COMPANY OR OTHER ORGANISATION

Creative HQ Ltd is 100% owned by Grow Wellington Ltd. Creative HQ Ltd may take equity in resident companies in accordance with the CHQ Equity Model proposal approved at the 24 October 2008 Board meeting.

THE BOARD'S ESTIMATE OF THE COMMERCIAL VALUE OF THE SHAREHOLDERS INVESTMENT IN CREATIVE HQ AND THE MANNER IN WHICH, AND THE TIMES AT WHICH, THAT VALUE IS TO BE REASSESSED

Not applicable.

"COMMUNITY FACILITIES" AND "COMMUNITY EVENTS"

Creative HQ may not provide operational or capital expenditure for community facilities or events as defined as:

- **"Community facilities"** - activities that provide services, entertainment or education to the public generally. Examples include Te Papa, the Karori Wildlife Sanctuary, libraries, galleries (e.g. The New Dowse) and the proposed Marine Education Centre.
- **"Events"** - activities that are operated for the purposes of entertainment, sport, tourist attraction or cultural/community celebration and are open to the public generally. Examples include festivals, concerts, sporting competitions, movie premieres

PROSPECTIVE FINANCIAL STATEMENTS

Assumptions used in preparation of the prospective financial statements are as follows:

- The prospective financial information contained in this approved Statement of Intent (SOI) is based on assumptions that Creative HQ Limited reasonably expects to occur.
- Actual results are likely to vary from the information presented and these variations may be material.

The following are the key assumptions used in preparing this SOI.

- The amalgamation of Grow Wellington, Positively Wellington Tourism and Positively Wellington Venues will have no immediate and direct impact on Creative HQ.
- There will not be any significant changes in planned service levels.
- There will be no major changes to key legislation affecting Creative HQ Limited's activities.

Creative HQ Limited receives funding from Grow Wellington / WREDA at the level indicated in the Financial Statements. It is Creative HQ's objective this year to seek supplementary support for its functions and programmes from other organisations.

Creative HQ also receives grants from central Government agencies to run programmes and initiatives. It is possible that some of the grant funding contained in the prospective financial statements may not eventuate. If this occurs, programmes and initiatives will be cut back to accommodate the loss of income.

Prospective Statement of Comprehensive Income	FY 2016	FY 2017	FY 2018
	Budget	Forecast	Forecast
Revenue	\$000s	\$000s	\$000s
Grow Wellington /WREDA	950	900	850
Callaghan Innovation	800	600	500
Ministry of Youth Development	120	180	150
Service Revenue	350	400	450
Other ¹	250	190	200
Total Revenue	2,420	2,270	2,150
Expenditure			
Incubation Programmes	550	500	500
Acceleration Programmes	600	500	400
Customer Engagement	470	450	400
Corporate Services (Creative HQ Operations)	800	820	850
Total Expenditure	2,420	2,270	2,150
Profit Before Income Tax	-	-	-
Income Tax Expense	-	-	-
Profit for the Year	-	-	-
Other Comprehensive Income	-	-	-
Tax Expense relating to Other Comprehensive Income	-	-	-

¹ Other income sources consists of revenue from events, residents (for serviced office space and specific training) and sponsorship received to support specific initiatives.

Other Comprehensive Income Net of Tax	<u>-</u>	-	-
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Total Comprehensive Income	<u>-</u>	-	-
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Prospective Statement of Change in Equity

Retained Earnings	FY 2016	FY 2017	FY 2018
	Budget	Forecast	Forecast
	\$000s	\$000s	\$000s
Balance at 01 July	-	-	-
Total Comprehensive Income	-	-	-
Balance at 30 June	<u>-</u>	-	-
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Prospective Statement of Financial Position

	FY 2016	FY 2017	FY 2018
	Budget	Forecast	Forecast
	\$000s	\$000s	\$000s
Assets			
Current			
Cash and Cash equivalents	237	237	237
Trade and Other receivables	32	32	32
Grow Wellington Income Due	-	-	-
GST Refund Due	-	-	-
Total Current Assets	<u>269</u>	<u>269</u>	<u>269</u>
Non Current			
Property, Plant & Equipment	37	37	37
Investments in Incubator and Accelerator Companies	335	335	335
Intangible Assets	-	-	-
Total Non-Current Assets	<u>372</u>	<u>372</u>	<u>372</u>
Total Assets	<u>641</u>	<u>641</u>	<u>641</u>
Liabilities			
Current			
Trade and Other payables	244	244	244
GST payments Due	-	-	-
CHQ Incubatee Bonds	10	10	10
Intercompany Balance	-	-	-
Employee Entitlements	15	15	15
Total Current Liabilities	<u>269</u>	<u>269</u>	<u>269</u>
Total Liabilities	<u>269</u>	<u>269</u>	<u>269</u>
Net Assets	<u>372</u>	<u>372</u>	<u>372</u>
Equity			
Retained Earnings	372	372	372
Total Equity	<u>372</u>	<u>372</u>	<u>372</u>

Prospective Cash Flows	FY 2016	FY 2016	FY 2017
	Budget	Forecast	Forecast
	\$000s	\$000s	\$000s
Cash Flows from Operating Activities			
Inflows			
Grow Wellington /WREDA Contributions	950	900	850
Other Revenue	1,470	1,370	1,300
Cash Inflows from Operating Activities	2,420	2,270	2,150
Outflows			
Payments to Suppliers and Employees	2,240	2,270	2,150
GST Net	-	-	-
Cash Outflows from Operating Activities	2,240	2,270	2,150
Net Cash Flows From (Used in) Operating Activities	-	-	-
Cash Flows from Investing Activities			
Inflows			
Intercompany Balance	-	-	-
Outflows			
Purchase of property, plant and equipment	-	-	-
Net Cash Flows From (Used in) Investing Activities	-	-	-
Net increase/(decrease) in cash and cash equivalents	-	-	-
Cash and Cash Equivalents at beginning of year	237	237	237

Cash and Cash Equivalents at End of Year

237	237	237
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ACCOUNTING POLICIES

Any accounting policies adopted in the prospective financial statements in this Statement of Intent (SOI) that have a significant effect on results and financial position disclosed, are set out below:

REPORTING ENTITY

The prospective financial statements presented are for Creative HQ Limited.

The Company is incorporated in New Zealand under the Companies ACT 1993. It is domiciled in New Zealand and operates from Wellington. Creative HQ Limited is owned by Grow Wellington Limited which is wholly owned by the Greater Wellington Regional Council and is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002.

The main purpose of the prospective financial statements in the SOI is to provide Creative HQ's owners, stakeholders and readers with information about the expected costs of the planned business activities.

For the purposes of reporting, Creative HQ Limited is designated a public benefit entity.

BASIS OF PREPARATION

The prospective financial statements are presented in New Zealand dollars, rounded to the nearest thousand and have been prepared on an historic cost basis.

The accounting policies set out below have been applied consistently to all periods presented in these prospective financial statements.

SIGNIFICANT ACCOUNTING POLICIES

1. Revenue Recognition

The Grow Wellington Limited contribution is recognised in the income statement as revenue on entitlement as conditions pertaining to expenditure have been fulfilled.

Grants are recognised on entitlement as conditions pertaining to eligible expenditure and milestones are achieved.

2. Property, Plant and Equipment

Property, plant and equipment are shown at cost, less accumulated depreciation and impairment losses.

Costs include expenditure that is directly attributable to the acquisition.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal are included in the statement of comprehensive income.

3. Property, Plant and Equipment

Depreciation is charged on a straight line basis on all property, plant and equipment other than land over the estimated useful life. Depreciation is charged to the statement of comprehensive income.

The useful lives and associated depreciation rates have been estimated as follows:

Computer Hardware	2-3 years
Equipment	2-8 years
Furniture	4-10 years

4. Intangible Assets

Intangible assets that are acquired, which have a finite useful life, are measured at cost less accumulated amortisation and accumulated impairment losses. The useful lives and associated amortisation rates have been estimated as follows:

Computer Software	1-3 years
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Amortisation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful lives of intangible assets.

Acquired software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The costs associated with maintaining computer software are recognised as an expense when incurred.

5. Impairment

All assets are reviewed annually for internal and external factors that may indicate that the service potential of the asset may be impaired. Impairment losses are recognised in the statement of comprehensive income

6. Trade and Other Payables

Trade and other payables are stated at amortised cost.

7. Employee Benefits

Short-term benefits

Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominated value based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, expected to be settled in 12 months and sick leave.

The Company recognises a liability for sick leave to the extent that the compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date; to the extent the Company anticipates it will be used by staff to cover those future absences.

The Company recognises a liability and an expense for bonuses where they are contractually obligated or where there is a past practice that has created a constructive obligation.

8. Cash and Cash Equivalents

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

9. Trade and other Receivables

Trade and other receivables are treated at their cost less impairment losses. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted using effective interest method. Receivables with a short duration are not discounted.

10. Financial Instruments

Financial instruments are initially measured at fair value plus transaction costs. Subsequent to initial recognition, these instruments are measured as set out below:

Non-Derivative Financial Instruments comprise investment in equity, trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial liabilities are recognised at amortised costs using the effective interest method.

The company does not have any derivative instruments.

11. Income Tax

Any income tax expense recognised in the statement of comprehensive income is the estimated income tax payable in the current year, adjusted to any difference between the estimated and actual income tax payable in prior periods.

12. GST

All amounts are shown exclusive of GST, except for trade receivables and trade payables that are stated inclusive of GST. When GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

Cash flows are included in the cash flow statement on a net basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

13. Expenses

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Payments made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expenses of the lease expense, over the term of the lease.

Finance income comprises interest income that is recognised in the profit or loss. Interest income is recognised as it accrues, using the effective interest method.

14. Share Valuation

Creative HQ Limited (CHQ), a subsidiary of Grow Wellington Limited, receives shares from clients involved in its incubation programme as part consideration for the services and support provided by CHQ to the client. The shares received represent a small proportion of the total equity of the client company (typically 2.5 - 5%). These shares are investments in equity instruments that do not have a quoted market price in an active market. The shares are initially valued at nil until a valuation from an external source can be used (e.g. such as a successful investment round or other equity event).

15. Investments in incubator and accelerator companies

The measurement of financial assets depends on their classification based on the purpose for which financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Creative HQ Limited (CHQ), receives shares from clients involved in its incubation and accelerator programme as part consideration for the services and support provided by CHQ and the Lightning Lab to the client. The

shares received represent a small proportion of the total equity of the client company. These shares are investments in equity instruments that do not have a quoted market price in an active market and are designated as available for sale.

CHQ recognises the initial investment in the companies according to the type of support they provide to the companies. Companies in the incubator programme do not have a value on initial recognition as no external investment has yet occurred and therefore the cost of initial investment is valued at nil. Companies on the accelerator programme are recognised in revenue at fair value. This is determined by the value per share based on the funding provided to each company in the programme in exchange for equity in the company.

The valuation of these investments is undertaken by CHQ using accepted industry guidelines. The International Private Equity and Venture Capital Valuation Guidelines (IPEV) have been accepted as the industry standard valuation guidelines and are based on the principle of 'fair value' and are reviewed following any relevant changes in accounting standards or market practices. The IPEV Guidelines provide a framework for private equity and venture capital investors to arrive at a fair value for their investments. The IPEV are of the view that compliance with IFRS can be achieved by following the guidelines.

IPEV Guidelines recommend that for early stage investments, where it is difficult to assess the future profitability of the company, fair value is generally determined by the price of the most recent investment. This methodology is appropriate until the circumstances of the company change such that an alternative valuation methodology (such as, but not limited to price/earnings analysis or discounted cash flow) is appropriate or there is evidence that the value of the investment should be adjusted. An adjustment is considered necessary where the performance of the investment is significantly below the expectations on which the investment was based, leading to a diminution in value. The level of adjustment can range from nil to 100% of the value.

As at 30 June 2014 the valuation of CHQ'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.

A significant or prolonged decline in fair value of the investment below its cost is considered to be objective evidence of impairment. Where the asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the Available for Sale revaluation reserve is reclassified from equity to profit or loss as a reclassification or adjustment. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated as a separate component of equity in the Available for Sale reserve.