# Fliway Group Limited

PROSPECTUS

INITIAL PUBLIC OFFERING OF ORDINARY SHARES IN FLIWAY GROUP LIMITED

6 March 2015 (as amended on 19 March 2015)

# IMPORTANT NOTICE

This Prospectus relates to the offer of fully paid ordinary shares (the **Offer Shares**) in Fliway Group Limited (**Fliway**) by Duncan and Gretchen Hawkesby, as trustees of The D & G Hawkesby Trust (the **Selling Shareholders**), and by Fliway (the **Offer**). Fliway and the Selling Shareholders have elected that the Securities Act 1978 (the **Securities Act**) and the Securities Regulations 2009 (the **Securities Regulations**) apply to the Offer for the purposes of sub-clause 6(3) of Schedule 4 of the Financial Markets Conduct Act 2013 (the **Financial Markets Conduct Act**). Accordingly, this Prospectus has been prepared in accordance with the Securities Act and the Securities Regulations rather than the Financial Markets Conduct Act. This Prospectus is prepared as at and dated 6 March 2015 (as amended by an instrument to amend dated 19 March 2015).

The purpose of this Prospectus is to provide certain key information that is likely to assist you to decide whether or not to acquire any Offer Shares.

This Prospectus is an important document and should be read carefully before deciding whether or not to invest in Fliway. You should be aware that other important information about Fliway, the Offer Shares and the Offer is set out in other documents, including the Constitution and the Investment Statement.

No one other than Fliway is authorised to give any information or make any representation in connection with this Offer which is not contained in this Prospectus, the Investment Statement or in other communications from Fliway. You should not rely upon any information or representation which is not contained within this Prospectus or the Investment Statement or which has not been specifically authorised by Fliway.

This Prospectus presents market data, industry forecasts and projections. Fliway has obtained significant portions of this information from the Ministry of Transport, Land Transport New Zealand, the Reserve Bank of New Zealand and Statistics New Zealand. There is no assurance that any of the forecasts contained in the reports, surveys and research of these parties will be achieved. Fliway has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 8 *What Are My Risks?.*

If you are in any doubt as to any aspect of the Offer, you should consult your authorised financial advisor, legal adviser, or an NZX Firm or Broker.

You should seek your own taxation advice on the implications for you of an investment in the Offer Shares.

**No guarantee**

No person guarantees the Offer Shares offered under this Prospectus. No person warrants or guarantees the performance of the Offer Shares or any return on any investments made pursuant to this Prospectus.

**Registration**

A copy of this Prospectus, duly signed by or on behalf of the Directors of Fliway and the Selling Shareholders for the purposes of the Securities Act, and having endorsed thereon or attached thereto copies of the documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act.

The documents required by section 41 of the Securities Act to be endorsed on or attached to the copy of this Prospectus delivered to the Registrar of Financial Service Providers are:

- the report of the Auditor in respect of certain financial information included in this Prospectus, as set out in this Prospectus;
- the signed consent of the Auditor to the audit report appearing in this Prospectus;
- the signed consent of the Investigating Accountant to the investigating accountant's report appearing in this Prospectus;

- copies of the material contracts referred to under the heading "Material contracts" in Section 12 *Statutory Information* on page 104; and
- authorities to an agent to sign this Prospectus (if any) under section 41(1)(b) of the Securities Act.

**Consideration period**

Pursuant to section 43C of the Securities Act, the Financial Markets Authority will be notified once this Prospectus is registered with the Registrar of Financial Service Providers. The Financial Markets Authority will have the opportunity to consider whether this Prospectus: (a) complies with the Securities Act and the Securities Regulations; (b) contains any material misdescription or error or any material matter that is not clearly legible; or (c) is false or misleading as to a material particular or omits any material particular. Nothing in this section or in any other provision of the Securities Act limits the Financial Markets Authority's power to consider or reconsider these matters in respect of this Prospectus at any time.

To avoid any doubt, the Financial Markets Authority has not approved, and will not at any time approve, the Offer or this Prospectus and does not guarantee the Offer Shares.

The Financial Markets Authority may, if it considers that it is desirable and / or in the public interest, exercise its powers to: (a) make an order prohibiting the allotment of the Offer Shares under this Prospectus for a period not exceeding 18 months; and / or (b) cancel the registration of this Prospectus. If the Financial Markets Authority makes an order prohibiting the allotment of the Offer Shares under this Prospectus, no allotment may be made of any Offer Shares subscribed for (whether before or after the order is made) during the period in which the order is in force and all subscriptions received for the Offer Shares that have not been allotted before the order is made must be immediately repaid to subscribers. If the Financial Markets Authority cancels the registration of this Prospectus, no allotment may be made of any Offer Shares subscribed for (whether before or after the order is made) and all subscriptions received for Offer Shares that have not been allotted before the cancellation must be immediately repaid to subscribers.

The nature and extent of the consideration (if any) that the Financial Markets Authority gives to this Prospectus is at the Financial Markets Authority's discretion. Pursuant to section 43D of the Securities Act, no allotment of the Offer Shares may be made and no Applications or subscriptions for the Offer Shares may be accepted during the Financial Markets Authority's consideration period. The consideration period commences on the date this Prospectus is registered and ends at the close of five working days after the date of registration. The Financial Markets Authority may shorten the consideration period, or extend it by no more than five additional working days.

**Selling restrictions**

The Broker Firm Offer is being made to New Zealand resident Retail Investors and the Institutional Offer is being made to selected Institutional Investors in New Zealand and in Australia.

This Prospectus is intended for use only in connection with the proposed Offer and does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been, or will be, taken to register this Prospectus in any jurisdiction other than New Zealand or otherwise permit a public offering of the Shares outside of New Zealand.

You may not offer, sell (including resell) or deliver, or invite any other person to so offer, sell (including resell) or deliver, any Offer Shares or distribute any documents (including this Prospectus) in relation to the Offer Shares to any person outside New Zealand, except in accordance with all of the legal requirements of the relevant jurisdiction.

Unless otherwise agreed with Fliway, by applying for the Offer Shares under the Offer you will, by virtue of such Application, be deemed to represent that you are not in a jurisdiction which does not permit the making to you of an offer or invitation of the kind described in this Prospectus and are not acting for the account or benefit of a person within such a jurisdiction.

None of Fliway, its directors, officers, employees, consultants, agents or advisers, nor the Selling Shareholders, accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

**Risk and suitability of an investment in Fliway**

This Prospectus does not take into account each investor's investment objectives, financial situation and particular needs. You should read this Prospectus in full before deciding whether to invest. In particular, you should consider the risk factors that could affect the performance of the Shares, particularly with regard to your personal circumstances. If you are in any doubt as to any aspect of the Offer you should consult your authorised financial adviser, legal adviser, or an NZX Firm or Broker.

Authorised financial advisers must operate by the Code of Professional Conduct for authorised financial advisers. The Code sets minimum standards of competence, knowledge and skills, of ethical behaviour, and of client care. An authorised financial adviser is able to provide you with personalised advice on an investment decision relating to the Offer Shares.

Prior to giving you any recommendations, an authorised financial adviser is required to analyse the Shares to a level that provides a reasonable basis for any such recommendations (including relying on the analysis of another person, upon whose analysis it is reasonable to rely in all the circumstances).

**Forward-looking statements**

This Prospectus contains certain statements that relate to the future, including, in particular, the information set out in Section 9.4 *Prospective financial information*. Forward-looking statements should be read together with the other information in this Prospectus, and the Investment Statement, including the risk factors in Section 8 *What Are My Risks?* and the assumptions and the sensitivity analysis set out in Section 9.4 *Prospective financial information*.

Such forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Fliway and which may cause the actual results, performance or achievements of the Offer Shares to differ materially from those expressed or implied by such statements.

**Definitions**

Capitalised terms used in this Prospectus have the specific meaning given to them in the Glossary (including certain industry specific terms with which you may not be familiar). If you do not understand the technical terms used in this Prospectus, please refer to Section 13 *Glossary* on pages 110 to 114 of this Prospectus.

Unless otherwise indicated, $ refers to New Zealand Dollars and all references to times and dates are to times and dates in New Zealand.

This Prospectus refers to various legislation in force in New Zealand as at the date of this Prospectus. You can view free of charge copies of any such legislation online at www.legislation.govt.nz.

# TABLE OF CONTENTS

# 1. FLIWAY SNAPSHOT

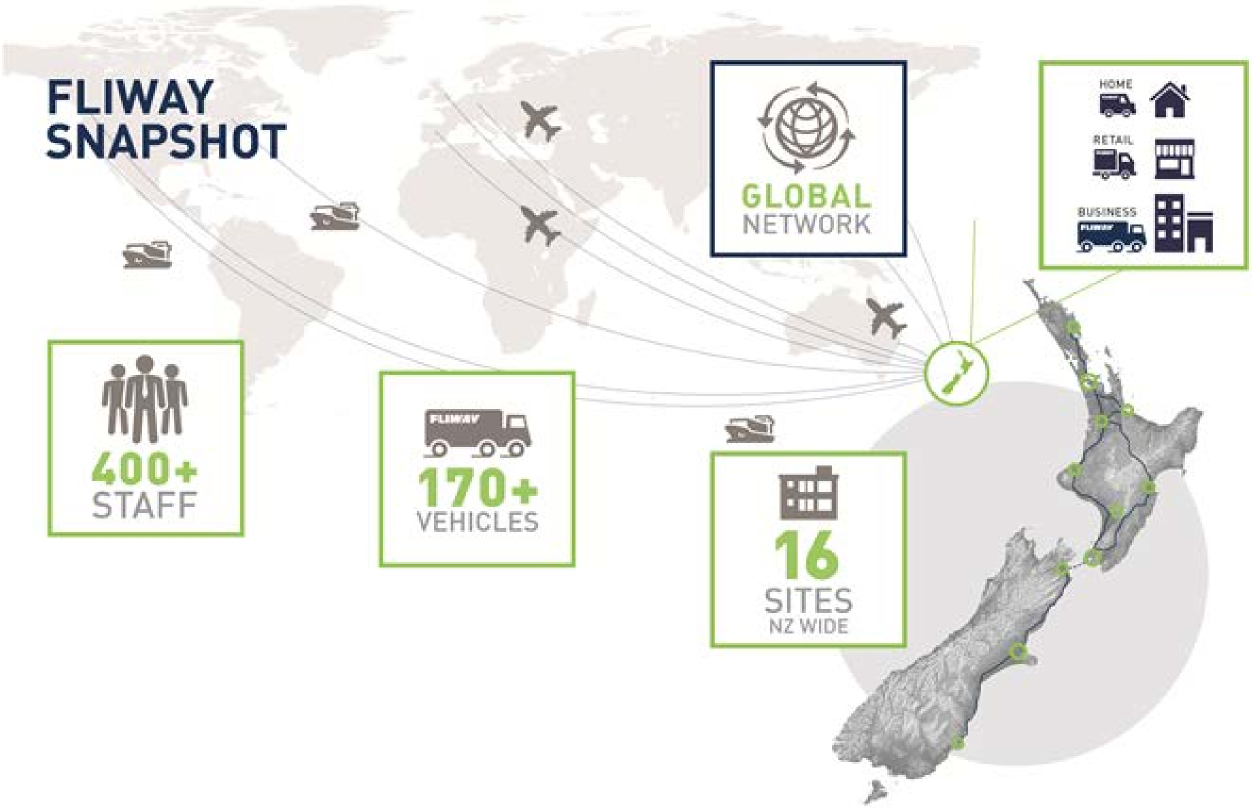
Fliway is one of New Zealand's larger independent and locally owned specialised transport and logistics companies with a nationwide presence and strong global Freight Forwarding relationships.[1]

Fliway's activities include transporting and warehousing freight in New Zealand and co-ordinating the movement of freight internationally, including arranging customs clearance and associated border clearance activities.

Fliway also has a 50/50 joint venture (**UPS-Fliway**) for express package delivery with United Parcel Services (**UPS**), one of the world's largest package delivery companies.

Domestically, Fliway delivers over 2 million pieces of freight per annum and processes, on average, over 25,000 units of freight per day across 27,750 square metres of warehousing facilities. Fliway also handles approximately 9,000 international shipments and 96,000 customs clearances per annum. From these services, Fliway generated revenue and EBITDA of $81.5 million and $8.3 million respectively.[2]

Fliway services over 1,000 customers across specialised domestic transport, warehousing and international Freight Forwarding. These services are provided by over 400 team members, a fleet of over 170 vehicles and a footprint of 11 branches and 5 warehouses across the country.




[1] For more information on Fliway's position in the New Zealand freight industry, refer to Section 5.5 *Competition*.
[2] For the year ended 30 June 2014 on a Pro Forma basis. For more information refer to Section 2.5 *Selected financial information.*

# 2. OFFER AT A GLANCE

This is an initial public offering of Shares in Fliway Group Limited. This section summarises the key terms of the Offer and provides selected financial information. Please see Section 9 *Financial Information* and Section 10 *Details of the Offer* for further information.

## 2.1 Purpose of the Offer and use of proceeds

Fliway Group Limited is currently 100% owned by the Selling Shareholders. The Offer includes an offer of Existing Shares by the Selling Shareholders and an offer of New Shares by Fliway.

The Offer is being made to allow the Selling Shareholders to realise a portion of their investment and provide Fliway with capital which it intends to use to repay Shareholder Loans, reduce term loan facilities and pay the costs of the Offer. The repayment of Shareholder Loans and a reduction in term loan facilities will provide Fliway with greater flexibility to capitalise on future growth opportunities as they arise. In addition, the Offer will also provide Fliway with opportunities for on-going access to capital markets, increase its profile and provide an opportunity for Fliway to broaden its investor base.

The indicative proceeds of the Offer are estimated to be $27.3 million to $44.5 million from the sale of approximately 22.7 million to 31.8 million Shares. Between $18.2 million and $35.5 million of the Offer proceeds will be received by the Selling Shareholders, who will retain between 30% - 50% of their Shares in Fliway following the Offer. The balance of the Offer proceeds (expected to be $9.0 million) will be received by Fliway.

| Sources | $m | Uses | $m |
|---|---|---|---|
| Sale of Existing Shares | $26.4 | Proceeds from Existing Shares to the Selling Shareholders | $26.4 |
| Issue of New Shares | $9.0 | Proceeds from issue of New Shares to Fliway to be applied to: | $9.0 |
| | | • Repayment of Shareholder Loans ($2.8) | |
| | | • Reduction in term loan facility ($3.7) | |
| | | • Transaction costs ($2.6) | |
| **TOTAL** | **$35.4** | **TOTAL** | **$35.4** |

This table is indicative only and assumes that the Offer Price is set at the mid-point of the Indicative Price Range and the Selling Shareholders retain a stake of 40% (i.e., the mid-point of the sell down range). Numbers are rounded to the nearest hundred thousand, which may result in some minor discrepancies between the sum of components and totals.

## 2.2 Offer structure

The Offer comprises the Broker Firm Offer and the Institutional Offer. There is no public pool. The Offer is not underwritten.

## 2.3 Key dates

| | |
|---|---|
| Prospectus registered | 6 March 2015 |
| Bookbuild, pricing and allocation | 17 March 2015 |
| Opening Date | 18 March 2015 |
| Closing Date | 1 April 2015 |
| Allotment and dispatch of holding statements | 8 April 2015 |
| Expected commencement of trading on the NZX Main Board | 9 April 2015 |
| Expected payment of first dividend | September 2015 |

This timetable is indicative only and the dates may change. Fliway, in conjunction with the Arranger and Lead Manager, reserves the right to vary or extend these dates. Fliway may also withdraw the Offer at any time before the Allotment Date or accept late Applications (either generally or in individual cases).

## 2.4 Key offer statistics

The following table highlights key Offer statistics based on the lower and upper values of the Indicative Price Range and based on Fliway undertaking a Share split once the Offer Price is known so that it has 45.4 million Shares on issue. These key Offer statistics should be read in conjunction with Section 10 *Details of the Offer.*

| | |
|---|---|
| Indicative Price Range | $1.20 – $1.40[3] |
| New Shares being offered to raise $9.0 million (based on the Indicative Price Range) | 6.5 – 7.5 million |
| Expected number of Existing Shares being offered | 15.2 – 25.3 million[4] |
| Expected number of Offer Shares | 22.7 – 31.8 million[5] |
| Indicative Offer size | $27.3 – $44.5 million[6] |
| Total number of Shares on issue upon completion of the Offer | 45.4 million[7] |
| Shareholding of the Selling Shareholders upon completion of the Offer | 30% – 50%[8] |
| Indicative market capitalisation | $54.5 – $63.6 million[9] |
| Net debt on completion of the Offer | $12.5 million[10] |
| Indicative enterprise value | $67.0 – $76.1 million[11] |

[3] The Offer Price will be announced prior to the Broker Firm Offer opening and may be above, within, or below the Indicative Price Range.
[4] Indicative only. The actual number of Existing Shares to be offered by the Selling Shareholders will only be known at the conclusion of the Bookbuild following a Share split of the 102 Existing Shares.
[5] Indicative only. Based on the Selling Shareholders selling down the minimum number of Existing Shares at the low end of the Indicative Price Range and the maximum number of Existing Shares at the high end of the Indicative Price Range.
[6] Indicative only. Based on the Selling Shareholders selling down the minimum number of Existing Shares at the low end of the Indicative Price Range and the maximum number of Existing Shares at the high end of the Indicative Price Range.
[7] Based on between 6.5 million and 7.5 million New Shares being issued pursuant to the Offer.
[8] Indicative only. Based on the Selling Shareholders selling between 15.2 million and 25.3 million Existing Shares and 6.5 million to 7.5 million New Shares being issued pursuant to the Offer.
[9] The market capitalisation of Fliway based on the Indicative Price Range multiplied by the number of Shares on issue on completion of the Offer (assuming between 6.5 million and 7.5 million New Shares are issued pursuant to the Offer).
[10] Net debt on completion of the Offer is equal to forecast total debt upon completion of the Offer of $12.5 million.
[11] Enterprise value (**EV**) is equal to the sum of the indicative market capitalisation and the net debt position on completion of the Offer.

## 2.5 Selected financial information

The following table shows selected summary financial information for Fliway. Wherever prospective financial information (**PFI**) appears in this Prospectus you should read that financial information together with the assumptions in Section 9 *Financial Information* as well as the risk factors set out in Section 8 *What Are My Risks?*. There is no guarantee that the results set out in the PFI will be achieved.

**Fliway's financial information**

Unless otherwise noted, all of the financial information presented in this Prospectus is shown on a Pro Forma basis. Fliway believes this Pro Forma information more closely reflects Fliway's post-Offer structure and provides a better basis for investors to compare and assess both historical and prospective financial information. Fliway has made Pro Forma adjustments for forecast one-off listing costs, forecast publicly listed company costs and changes to management remuneration practices. For a full explanation of the term Pro Forma, the adjustments Fliway has made to its financial information and why these adjustments have been made, please see Section 9.3 *Reconciliation of non-GAAP financial information* under the heading "Explanations of Pro Forma adjustments".

| | Actual | | | Prospective | | Actual | |
|---|---|---|---|---|---|---|---|
| | FY12 | FY13 | FY14 | FY15F | 12M Dec 15F | 1H FY14A | 1H FY15A |
| | 12 months ended 30 June 2012 | 12 months ended 30 June 2013 | 12 months ended 30 June 2014 | 12 months ending 30 June 2015 | 12 months ending 31 December 2015 | 6 months ended 31 December 2013 | 6 months ended 31 December 2014 |
| Revenue | 73.2 | 74.4 | 81.5 | 85.3 | 85.6 | 42.7 | 44.4 |
| **Pro Forma EBITDA comprising:**[12] | **7.4** | **7.4** | **8.3** | **8.7** | **9.5** | **5.2** | **4.7** |
| Fliway Group | 6.3 | 6.0 | 7.0 | 7.3 | 8.2 | 4.7 | 3.9 |
| UPS-Fliway[13] | 1.1 | 1.3 | 1.3 | 1.4 | 1.3 | 0.5 | 0.8 |
| Pro Forma EBIT[14] | 6.0 | 6.1 | 6.8 | 6.6 | 7.1 | 4.5 | 3.8 |
| **Pro Forma NPAT**[15] | **3.6** | **3.6** | **4.4** | **3.9** | **4.5** | **3.2** | **2.2** |

**Summary financials**

You can find an explanation of trends in financial information and of Pro Forma EBITDA and Pro Forma NPAT, and why Fliway uses these non-GAAP measures of financial performance, in Section 9 *Financial Information*. A reconciliation of statutory NPAT to Pro Forma EBITDA, Pro Forma EBIT and Pro Forma NPAT is also included in Section 9.3 *Reconciliation of non-GAAP financial information*.

[12] Total EBITDA includes 50% of attributable EBITDA from UPS-Fliway. For an explanation of how Fliway calculates EBITDA including, in particular, the attribution of EBTIDA from UPS-Fliway and Pro Forma adjustments, see Section 9.2 *Overview of Fliway's financial information* under the heading "Explanation of non-GAAP financial information".
[13] Equivalent to 50% of UPS-Fliway EBITDA.
[14] Includes contribution from UPS-Fliway.
[15] Includes contribution from UPS-Fliway.

Fliway's balance date is 30 June. The comparative prospective financial information for the 12 months ending 31 December 2015 has been provided as additional information to show the readers the 1H16F six month period as part of a full 12 calendar month period. This additional disclosure will enable readers to better compare the period ending 31 December 2015 with the historical Pro Forma financial information presented for FY12 to FY14 and the prospective Pro Forma financial information for FY15F.

The financial information for the six months ended 31 December 2014 is provided to show the performance of the business in the most recent six month period. The financial performance for the six months ended 31 December 2013 has been provided as additional information to enable readers to better compare the financial information for the six months ended 31 December 2014.

**Key investment metrics**

The following table highlights key Offer statistics and should be read in conjunction with Section 10 *Details of the Offer.* These metrics are provided to help you assess the value of Fliway. The calculations are presented based on the lower and upper values of the Indicative Price Range and are explained further in the table set out at the end of Section 13 *Glossary*.

| | FY15F | 12M Dec 15F |
|---|---|---|
| **Enterprise value / EBITDA** | 7.7x – 8.8x | 7.0x – 8.0x |
| **Enterprise value / EBIT** | 10.1x – 11.5x | 9.4x – 10.7x |
| **Market capitalisation / NPAT** | 13.9x – 16.2x | 12.0x – 14.0x |
| **Cash dividend yield**[16] | 5.0% – 4.3% | 5.8% – 5.0% |
| **Gross dividend yield**[17] | 7.0% – 6.0% | 8.1 – 6.9% |

*Based on the Indicative Price Range. If you acquire Shares in the Offer you will be entitled to prospective dividends on those Shares. There is no assurance that prospective dividends will be paid.*

[16] For FY15F: Annualised calculation based on the forecast dividend for FY2015 to be paid in September 2015 in respect of the three month period from the Allotment Date to 30 June 2015. For 12M Dec 15F: based on the forecast dividend in the 12 month period ending 31 December 2015, assuming a payout ratio of 70% of NPAT. Dividends are payable at the discretion of the Board and are subject to legal tests being met. Fliway's dividend policy is set out in Section 10.6 *About the Shares*.

[17] Cash dividend yield grossed up for imputation credits at the New Zealand corporate tax rate. The gross dividend yield is based on the Indicative Price Range.

# 3. LETTER FROM THE CHAIRMAN

On behalf of the Board, it is my pleasure to invite you to become a Shareholder in Fliway Group Limited.

Since its inception in 1977, Fliway has grown to be a major player in the New Zealand market with a large fleet and nationwide footprint.

Fliway operates within the New Zealand freight industry which is typically influenced by gross domestic product (**GDP**). Economic analysis has demonstrated that the New Zealand transport industry is required to grow at a faster rate than GDP to support economic growth and Fliway is well positioned to capitalise on New Zealand's favourable growth outlook over the next two years. While GDP is a key influencer of changes in Fliway's turnover, Fliway's earnings are maximised when its service capacity is optimised for actual demand. For this reason, after a period of sustained growth in demand, Fliway has invested heavily in new capacity across the transport network.

Globally, Fliway has relationships with logistics companies across Australia, Asia, USA and Europe. Fliway's 50/50 joint venture, UPS-Fliway, delivers express packages in New Zealand that originate from the international UPS network and offers small package express courier services to over 220 countries and territories worldwide.

Fliway considers that it has strong differentiators from its competitors. Fliway is able to customise its service offering and deliver a good outcome for customers because of its focus on high service freight which requires a distinct business model and infrastructure that is not easily replicated profitably by Fliway's competitors. Fliway considers that this has resulted in it enjoying good relationships with its customers and long customer tenure.

In addition to prospective growth of the New Zealand freight industry, Fliway is specifically focused on the expansion of revenue, earnings and market share through investment in technology and people, optimising asset utilisation and expanding into new sectors.

Fliway is led by an experienced senior management team who have been with Fliway for a number of years and have proven their capability in managing the business. Duncan Hawkesby will remain as Managing Director and will retain a significant shareholding post-IPO, incentivising him to continue to deliver returns for Shareholders.

This Prospectus and the Investment Statement prepared in relation to the Offer contain detailed information about the Offer, the New Zealand freight industry in which Fliway operates and Fliway's operating and financial performance. Importantly, it also contains information about the risks associated with an investment in Fliway. I encourage you to read it carefully before making an investment decision.

The Board and management are enthused about the future for Fliway. On behalf of the Board, I look forward to welcoming you as a Shareholder.

Yours sincerely,

Craig Stobo

# LETTER FROM THE MANAGING DIRECTOR AND SHAREHOLDER

Dear prospective Shareholder,

Fliway has operated as a private business since starting out of a garage nearly 40 years ago. My family acquired the business from its founder in 2006. Fliway has a proud history of providing specialised services within the transport, international Freight Forwarding and logistics industry and a track record of stable cash flows and growing earnings.

An initial public offering (**IPO**) provides my family with the ability to retain a significant shareholding while allowing the business to access capital markets, broaden its investor base and increase its profile. As part of the IPO, we are raising capital to reduce debt which will provide headroom for future growth opportunities.

As the business enters its next phase of growth, I believe that it is important to have the experience and rigour of a high quality board structure to support the business in achieving its goals. To complement the experience of our management team and provide support and guidance moving forward, I have been delighted to welcome two experienced independent directors to Fliway's Board, with Craig Stobo joining as Chair and Alan Isaac in the role of Head of Audit and Risk.

As part of the IPO, my family will retain a stake of 30% - 50% and I look forward to continuing as Managing Director of the Fliway Group.

In my eight years at Fliway so far, our senior management team has grown revenue by over 45% both organically and through acquisitions. We have invested in quality people, information technology systems, infrastructure and fleet.

We have been focused on building a platform for growth so that we can deliver greater levels of service to our customers, generate efficiencies to improve productivity and take advantage of opportunities to increase scale in this fast moving and growing industry.

The IPO provides Fliway with a platform to deliver on that targeted growth. I look forward to your participation as a Shareholder in the future of our Company.

Managing Director and Shareholder

Duncan Hawkesby

# 4. INVESTMENT HIGHLIGHTS

## 4.1 Established nationwide end-to-end supply chain provider

- Fliway provides customers with integrated supply chain solutions throughout New Zealand and globally, offering international freight; customs brokerage; warehousing; and specialised domestic transport.
- Integration enables Fliway to provide a one-stop shop for customers, reducing costs and creating cross-selling opportunities between Fliway's divisions.
- Fliway's nationwide capability is provided through 11 transport branches and 5 logistics warehouses, operated by more than 400 staff.
- Fliway also has a joint venture with UPS. UPS-Fliway provides international express package delivery into and out of New Zealand.


For more information about Fliway's service offering and history, refer to Section 6 *Business Description.*

## 4.2 Fliway operates across diverse markets and is a leader in a number of specialised sectors due to its differentiated service offering

Fliway's operating model and its focus on service has positioned it as a market leading provider of specialised transport and warehousing in a number of sectors including:

- commercial refrigeration;
- consumer electronics;
- home appliances;
- consumer transaction technologies;
- medical imaging; and
- copiers and printers.

Fliway also has customers operating across many other sectors.

For more information on Fliway's customers and the sectors in which they operate, refer to Section 6.6 *Customers*.

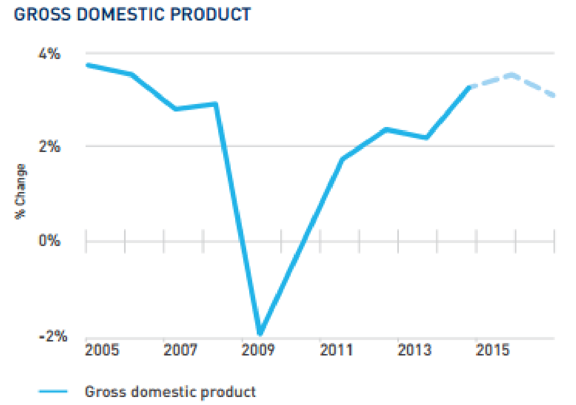
Fliway's competitive position is supported by its differentiated service offering comprising:

- a network of specialised facilities, vehicles and materials handling equipment which creates economies of scale that smaller players are unable to replicate;
- company-owned and operated fleet that provide it with control over the specifications of the vehicles as well as the flexibility of the service offering and the daily delivery schedule;
- IT infrastructure that can be customised and is customer centric;
- experienced and fully trained staff; and
- an ability to perform the role of Lead Logistics Provider (**LLP**) by offering customers a specialised single point of contact.

For more information about Fliway's service offering, refer to Section 6 *Business Description.*

## 4.3 Growth industry supported by strong economic fundamentals

- The New Zealand road transport sector is correlated to economic growth (as measured by GDP). In the long run, it is estimated that a 1.5% - 2.0% increase in road transport activity is required to support a 1% increase in GDP.[18]
- GDP is forecast to grow by 3.5% and 3.1% respectively in the 2015 and 2016 calendar years.[19]
- Forecast growth in international trade and the New Zealand population are expected to positively influence the New Zealand road transport market.[20]
- Fliway considers that the recent trend towards online shopping will provide an opportunity for freight providers to innovate and that it is well positioned to benefit from global online retail growth through both UPS-Fliway and its home delivery capabilities.



Source: Statistics NZ, RBNZ

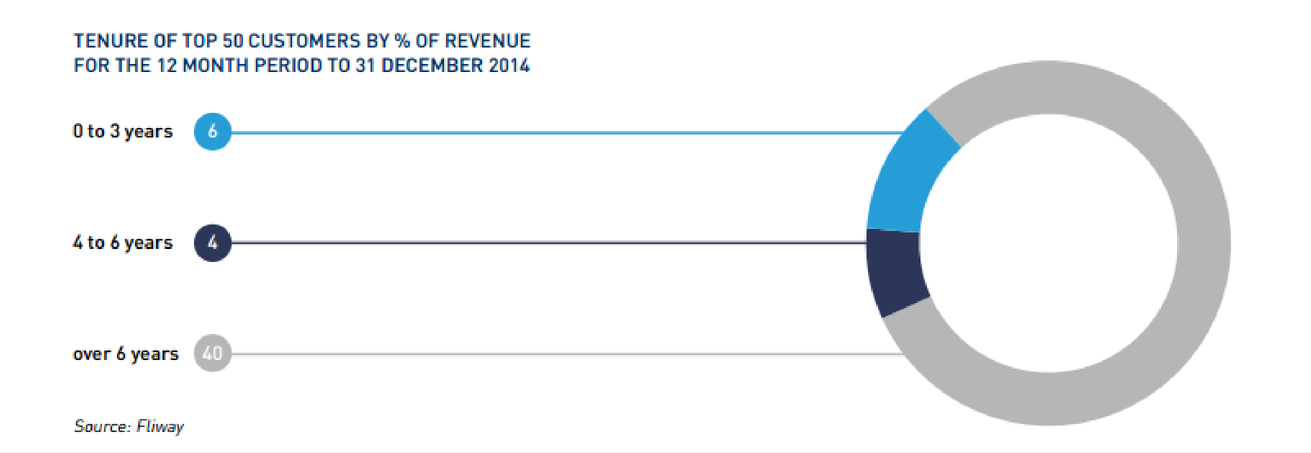
For more information about the industry in which Fliway operates, refer to Section 5 *Industry Overview.*

[18] J Bolland, D Weir and M Vincent "Development of a New Zealand National Freight Matrix", Land Transport New Zealand Research Report 283, www.nzta.govt.nz.

[19] Reserve Bank of New Zealand "Monetary Policy Statement" (December 2014) Reserve Bank of New Zealand, www.rbnz.govt.nz.

[20] Ministry of Transport "Statement of Intent 2013-2016", www.transport.govt.nz; NZ Transport Agency "Land Transport Issues", www.nzta.govt.nz; and Ministry of Transport "National Freight Demand Study March 2014" (March 2014), www.transport.govt.nz.

## 4.4 High quality customer base with long tenure

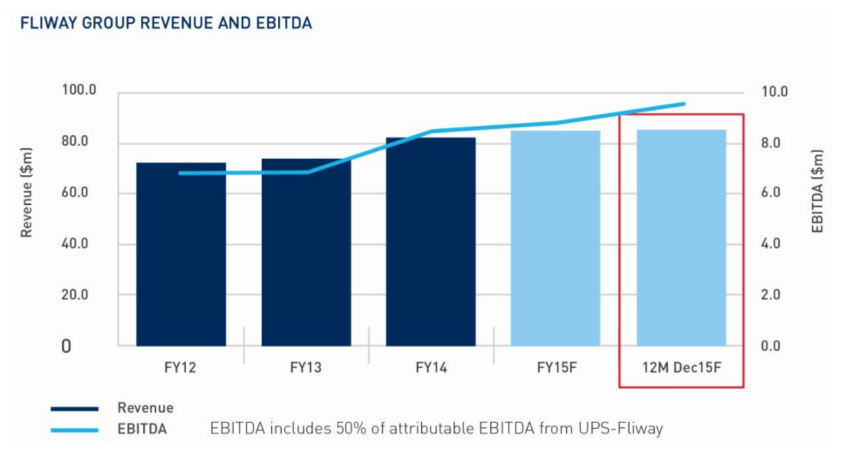



- Fliway has a diverse set of customers ranging from large multinational corporations to smaller family owned businesses.
- More than 55% of Fliway's top 50 customers have been with Fliway for over 10 years.[21]
- No single customer exceeds 14% of Fliway's total revenue, and only two customers exceed 5%.
- Fliway has several customers whose tenure exceeds 20 years.
- Fliway considers that its focus on service and specialised offering form the basis for these longstanding customer relationships.

For more information on Fliway's customers, refer to Section 6.6 *Customers.*

## 4.5 Track-record of cash generation

- Over the period of FY12 to 12M Dec 15F, Fliway's revenue is forecast to deliver CAGR revenue growth of 4.6% and CAGR EBITDA growth of 7.3%.[22]
- Fliway expects to generate an average EBITDA margin of 9.3% for the same period.[23]
- Fliway's cash generative ability is reflected in the forecast dividend payout ratio of 50% - 70% and corresponding forecast 6.9% - 8.1% gross dividend yield.[24]

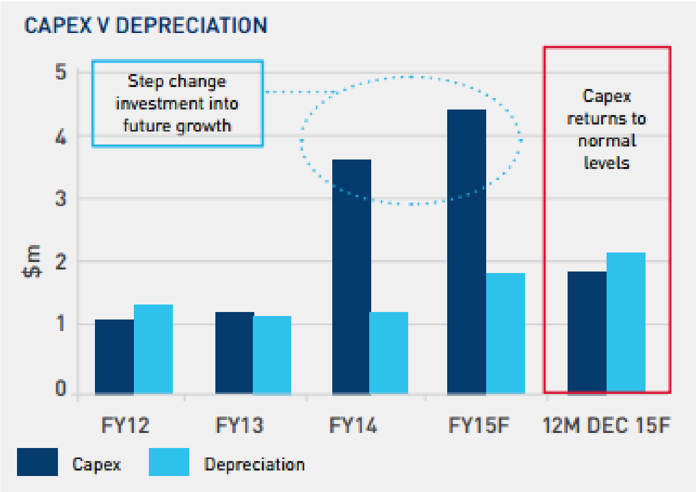



For more information on Fliway's revenue, refer to Section 9 *Financial Information.*

[21] Top customers defined relative to revenue for the 12 month period to 31 December 2014.
[22] Calculated as Fliway revenue plus 50% of UPS-Fliway revenue.
[23] Calculated as Fliway Pro Forma EBITDA plus 50% of UPS-Fliway EBITDA.
[24] Based on the forecast dividend in the 12 month period ending 31 December 2015 based on a payout ratio of 70% of NPAT and is grossed up for imputation credits at the New Zealand corporate tax rate. The gross dividend yield is based on the Indicative Price Range.

## 4.6 Fliway has invested in a platform for growth

- Fliway expects that its investment in people, fleet, facilities and IT will result in opportunities for economies of scale and strengthen its platform for further growth.
- Fliway has been committed to attracting and developing strong leaders with industry, supply chain and commercial experience in its wider management team.
- The introduction of High Performance Motor Vehicles (**HPMV**) regulations, allowing for higher capacity vehicles, has led Fliway to invest in new Line-Haul fleet. The addition of these HPMVs means a greater volume of freight can be transported by a single vehicle resulting in a more efficient operating cost base.[25]
- This step-change capital investment in future growth is expected to return to normal levels over the period of the PFI.




- Fliway secured an additional Auckland site in FY14 to accommodate growth, and planning is now underway to increase its warehousing capacity in both Auckland and Christchurch through securing new leased premises.
- Fliway has invested in additional IT personnel to ensure it keeps up with increasing customer requirements for information and technology solutions and to support the future upgrade of its warehouse management system and other IT initiatives.

For more information of Fliway's business, refer to Section 6 *Business Description.*

## 4.7 High quality senior management, supported by an experienced Board

- Fliway's current senior management team has been led by Duncan Hawkesby since 2006. It has delivered an increase in total revenue of approximately 47% across that period, both organically and through acquisitions.
- The General Managers of Fliway Domestic and Fliway International have been with Fliway since 1993 and 1985 respectively.
- Fliway's senior management team is supported by experienced Directors. Directors and senior management have capabilities across governance and mergers and acquisitions as well as commercial expertise in the New Zealand transport sector.

For more information about the Directors, see Section 7 *Board, Senior Management Team and Corporate Governance.*

[25] For more information on the effect of this capital expenditure, refer to Section 9.2 *Overview of Fliway's financial information.*

# 5. INDUSTRY OVERVIEW

Fliway operates in the New Zealand freight and logistics industries as a provider of specialised domestic transport and warehousing, international Freight Forwarding and, through UPS-Fliway, international express package delivery.

## 5.1 Freight industry sectors

The New Zealand freight industry can be categorised into the three sectors described below, each of which includes road, rail, sea and air methods of transport.

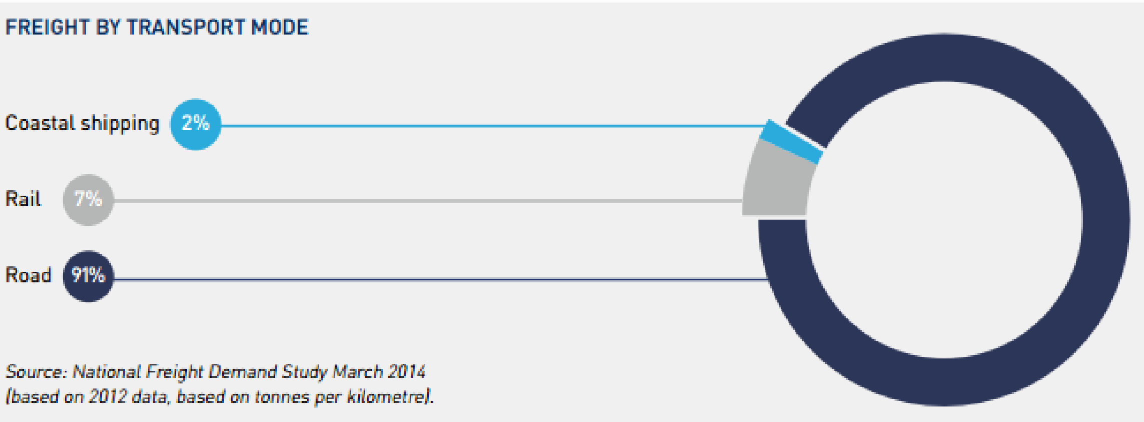
| | |
|---|---|
| **1. Domestic freight** | This sector encompasses the movement of all freight from business to business and business to consumer, primarily by road, rail and coastal shipping. A large proportion of domestic transport is related to the import and export of goods and involves the transport of goods to and from major ports.<br><br>The domestic freight sector plays an important role in New Zealand's economy. The sector is substantial, moving the equivalent of approximately 50 tonnes of freight a year per capita.[26]<br><br>The delivery of express packages within New Zealand forms a sub-sector of the domestic freight sector. The domestic express package industry is undertaken by network couriers who deliver packages (typically up to 25 kg) in a time-sensitive manner locally, regionally and nationally. |
| **2. Warehousing and logistics** | A growing segment within the wider freight industry is the provision of warehousing and logistics services for third parties (often referred to as "third party logistics" or "3PL"). Outsourcing warehousing and distribution activities allows organisations to benefit from cost efficiencies arising from the scale of the staff and systems of specialised facilities, and the ability to adjust their inventory holdings and activity levels up and down with a variable cost model.<br><br>The increasing prevalence of online shopping and "just in time" inventory systems increases demand for distribution centres and warehousing to hold large quantities of goods with smaller and more frequent deliveries to end destinations. Equally there is a demand for warehousing and distribution centres to cater for "reverse logistics" (being the transport of returned goods and obsolete stock from businesses back to warehouses) to manage aspects of the supply chain such as customer returns. |

[26] Ministry of Transport "National Freight Demand Study", March 2014.

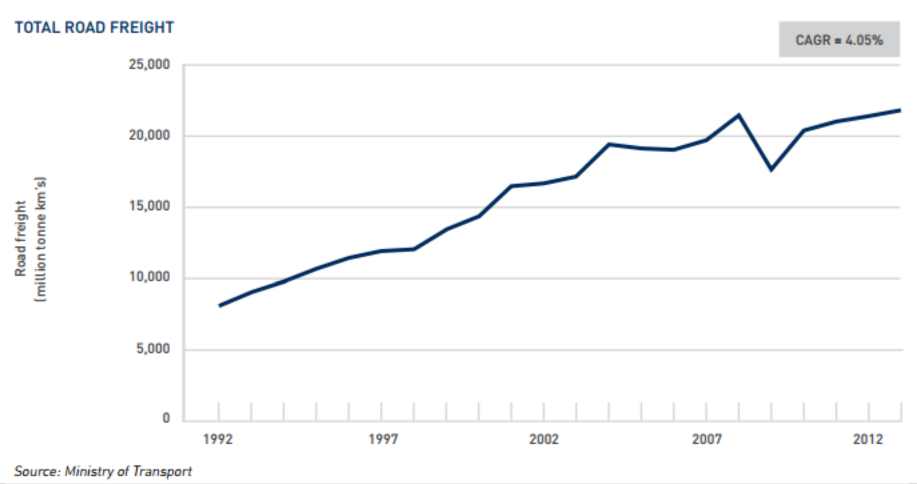
| | |
|---|---|
| **3. International Freight Forwarding** | The export and import of freight from or to New Zealand typically involves a number of logistics parties through Freight Forwarding arrangements.<br><br>Third party analysis has shown that the Freight Forwarding industry typically outpaces the growth of global GDP.<br><br>A sub-sector of international Freight Forwarding relates to the international delivery of express packages. These are typically smaller consignments that are time critical. Fliway expects that the increasing prevalence of online shopping will be an important driver of international express package activity. |

## 5.2 Domestic freight industry

The domestic freight industry in New Zealand primarily uses three modes of transport: road, rail and coastal shipping.




Road is the dominant freight mode, accounting for over 90% of all domestic freight movements.[27] Partly this is because freight movements (on a tonnes per kilometre basis) are dominated by shorter distance movements within regions which are not able to be completed by rail or shipping.[28]



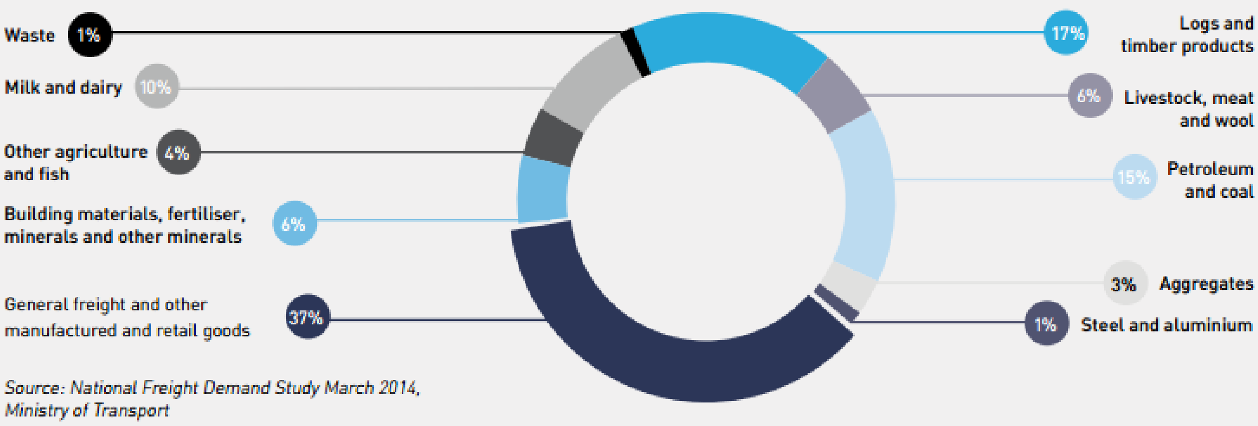

Total road transport cargo by weight has generally increased since the 1990's. This trend was only broken in 2006 and by the global economic recession in 2009. Road transport cargo is forecast to grow by close to 60% over the next 30 years.[29]

[27] Ministry of Transport "National Freight Demand Study March 2014", page 223.
[28] Ministry of Transport "National Freight Demand Study March 2014", page 17.
[29] Ministry of Transport "National Freight Demand Study March 2014", page 17.

### Type of road freight

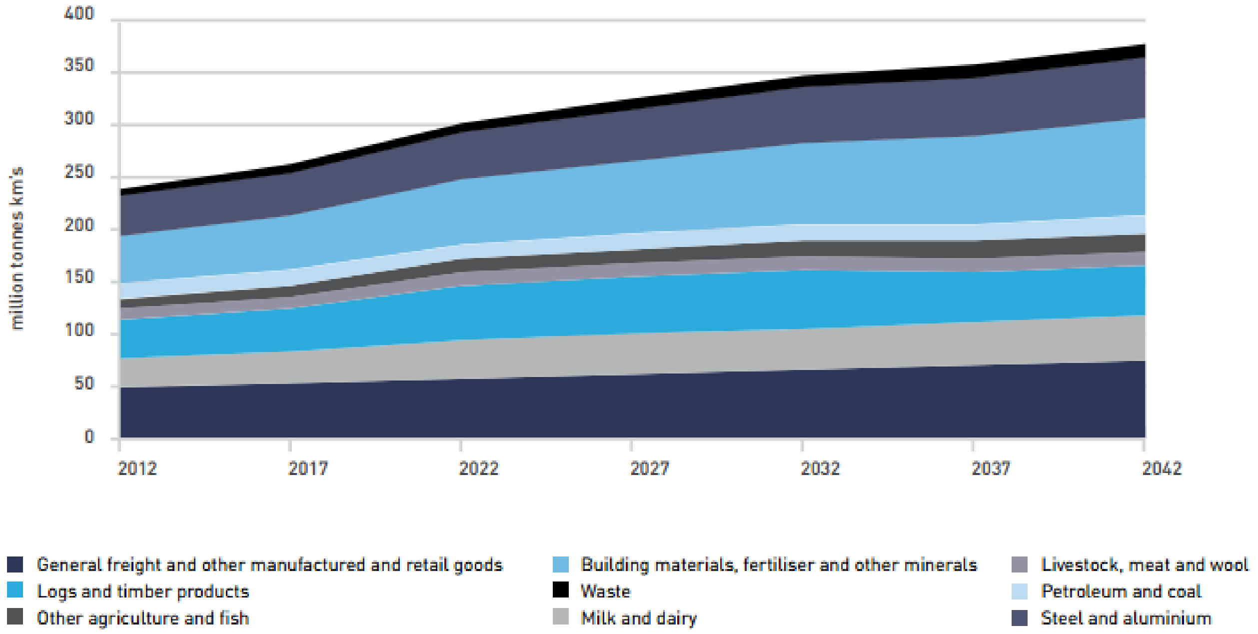
The road freight industry transports a wide range of goods. It broadly mirrors the key commodities produced by local industry and the import needs of domestic businesses and consumers.

FREIGHT MOVEMENTS (BY TONNE-KMS)




*Source: National Freight Demand Study March 2014, Ministry of Transport*

ROAD FREIGHT MOVEMENT FORECASTS (BY TONNE-KMS)




*Source: National Freight Demand Study March 2014, Ministry of Transport*

Fliway's activities are in the "general freight and other manufactured and retail goods" category. That category represents approximately 30% - 40% of the total freight industry market. This segment of the market is expected to grow by approximately 50% over the next 30 years.[30]

For more information on the sectors in which Fliway operates and the type of goods Fliway transports, refer to Section 6 *Business Description*.

[30] Ministry of Transport "National Freight Demand Study March 2014", page 17. This is based on the fact that Fliway operates in the "General freight and other manufactured and retail goods" sectors.

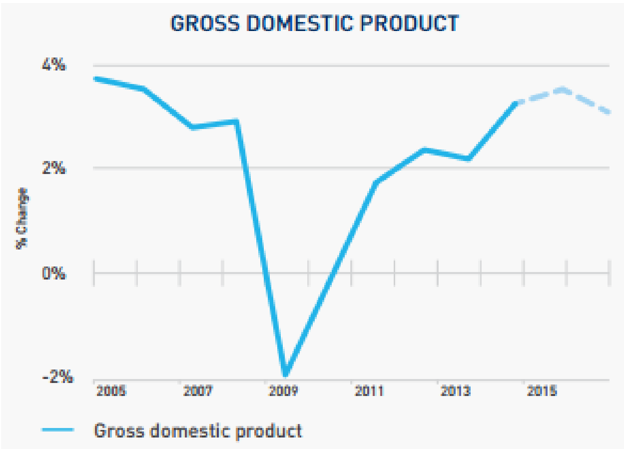
## 5.3 Drivers of the freight industry

The level of freight volume in New Zealand is driven by domestic business activity (measured by GDP), New Zealand's population and the level of international trade into and out of New Zealand.

**Gross Domestic Product**

GDP and domestic freight volumes are correlated. Historical economic analysis suggests a 1.5% - 2.0% increase in road transport activity is required to support a 1% increase in GDP.[31]

Consensus estimates forecast GDP growth of 3.5% and 3.1% per annum in the calendar years 2015 and 2016 respectively.[32]



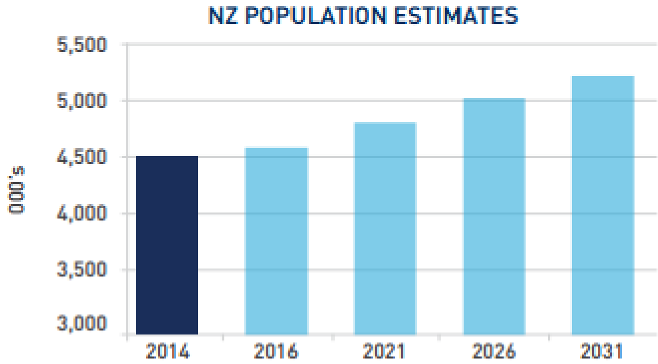
*Source: Statistics NZ, RBNZ*

**New Zealand population**

Population growth is an important driver of freight demand.

Population growth leads to increased consumption and demand for goods, which in turn requires transport to reach consumers.

The New Zealand population is forecast to increase by approximately 15% over the next 17 years.[33]



*Source: Statistics NZ. Actual population as at June 2014. Forecast population as of 2011 forecast*

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[31] J Bolland, D Weir and M Vincent "Development of a New Zealand National Freight Matrix", Land Transport New Zealand Research Report 283, www.nzta.govt.nz.

[32] Reserve Bank of New Zealand, Monetary Policy Statement December 2014, page 28.

[33] Statistics New Zealand accessed 1 October 2014.

| | | |
|---|---|---|
| **International trade** | The import and export of goods into and out of New Zealand requires freight to be transported from or to the port of arrival or departure.<br><br>International trade into and out of New Zealand (in volume terms) has increased nearly 50% over the past 10 years.[34]<br><br>Global international trade has increased over 180% in the past 20 years.[35] |  |

In addition to the key drivers, there are a number of structural changes, trends and technology improvements which Fliway considers are impacting the way the freight industry operates:

| | |
|---|---|
| **Changes in distribution practices (i.e. outsourcing of supply chain)** | Goods are now often distributed directly from a holding warehouse to the customer, with many bypassing the retail store in the interests of efficiency.[36]<br><br>In Fliway's experience, this often results in customers demanding more flexible, smaller and more numerous transportation and warehousing deliveries. However it also means that customers tend to be willing to pay higher transport rates per unit of volume for these services. |
| **Improved data and information systems (i.e. fleet tracking, vehicle management and capacity utilisation)** | Improved data and information systems allow the development of integrated logistics packages, where operators offer combinations of transport and storage. These packages effectively allow customers to outsource these functions entirely.[37]<br><br>New investments, regulations and technologies are resulting in increased payloads, lower operating costs and improving utilisation of available assets. |
| **Consumer supply chain being disrupted by e-commerce** | The increasing prevalence of online shopping has led to growth in demand for express packages. |
| **More technology in the home and shorter replacement cycles** | The combination of the fact that consumers tend to own more consumer electronic devices (for example, smartphones and tablet computers) and an accelerating product replacement cycle means that consumers are purchasing consumer electronic devices more frequently, requiring larger volumes to be distributed from the manufacturer. |

[34] Statistics New Zealand accessed 1 October 2014.
[35] World Trade Organization "Modest trade growth anticipated for 2014 and 2015 following two year slump" (15 April 2014) World Trade Organization, www.wto.org/english/news_e/pres14_e/pr721_e.htm, accessed 4 February 2015.
[36] Ministry of Transport "National Freight Demand Study March 2014", page 7.
[37] Ministry of Transport "National Freight Demand Study March 2014", page 223.

## 5.4 Regulation

The New Zealand Government has recently made a priority of upgrading and enhancing the roading network to facilitate fast and efficient trade. Seven roads of national significance have been the most visible evidence of investment in productive capacity. These projects have been complemented by significant funding to improve New Zealand's critical roading infrastructure. This effort can be seen both through targeted improvements to enable bridges to carry heavier freight vehicles and more general funding for improvements to regional networks.[38]

The introduction of HPMV legislation in May 2010 is an example of the New Zealand Government endeavouring to improve the efficiency of road transportation. Previously trucks were permitted to have up to 44 tonne gross vehicle mass. Under the 2010 amendments, HPMVs are permitted to be longer and weigh up to 53 tonnes, subject to obtaining a permit and operating only on specified routes with sufficient strength to cope with the increased load.[39]

## 5.5 Competition

The New Zealand freight industry is highly fragmented and Fliway competes with many companies and services on a local, national and international basis.

While fragmented, Fliway believes that New Zealand transport providers require a number of features in order to compete effectively in the New Zealand freight industry (in the industry, such competitors are referred to as "lead logistics providers" or "LLP's"). An LLP has the ability to:

- provide national warehousing and distribution through established infrastructure;
- provide international Freight Forwarding connections;
- offer integrated and customisable IT interfaces;
- maintain a high service level and brand that users can trust; and
- provide flexibility to grow and evolve with changing demands of customers.

Given the fragmented nature of the industry, the majority of New Zealand transport providers are small private businesses. Based on its national footprint, employee and vehicle numbers and customer base, Fliway is one of the larger independent and locally owned specialist transport and logistics companies in the New Zealand freight industry. Fliway estimates that there are around 10 providers that are of sufficient scale to be considered an LLP and able to compete effectively with Fliway.

Fliway seeks to distinguish itself from its competitors by focussing on specialised freight, which requires a distinct operating model and infrastructure that are not easily matched by competitors.

KiwiRail is the only rail operator in New Zealand and is 100% Government-owned. Fliway is able to use rail where it is a suitable option and it is frequently offered as an option to Fliway's customers. While rail is cost effective over long distances, the delivery schedule requirements of freight carried by Fliway means rail is often not a viable proposition for its customers.

[38] Government Policy Statement on Land Transport, page 12. Announced 18 December 2014. Comes into effect from 1 July 2015.
[39] Ministry of Transport "National Freight Demand Study March 2014", page 228.

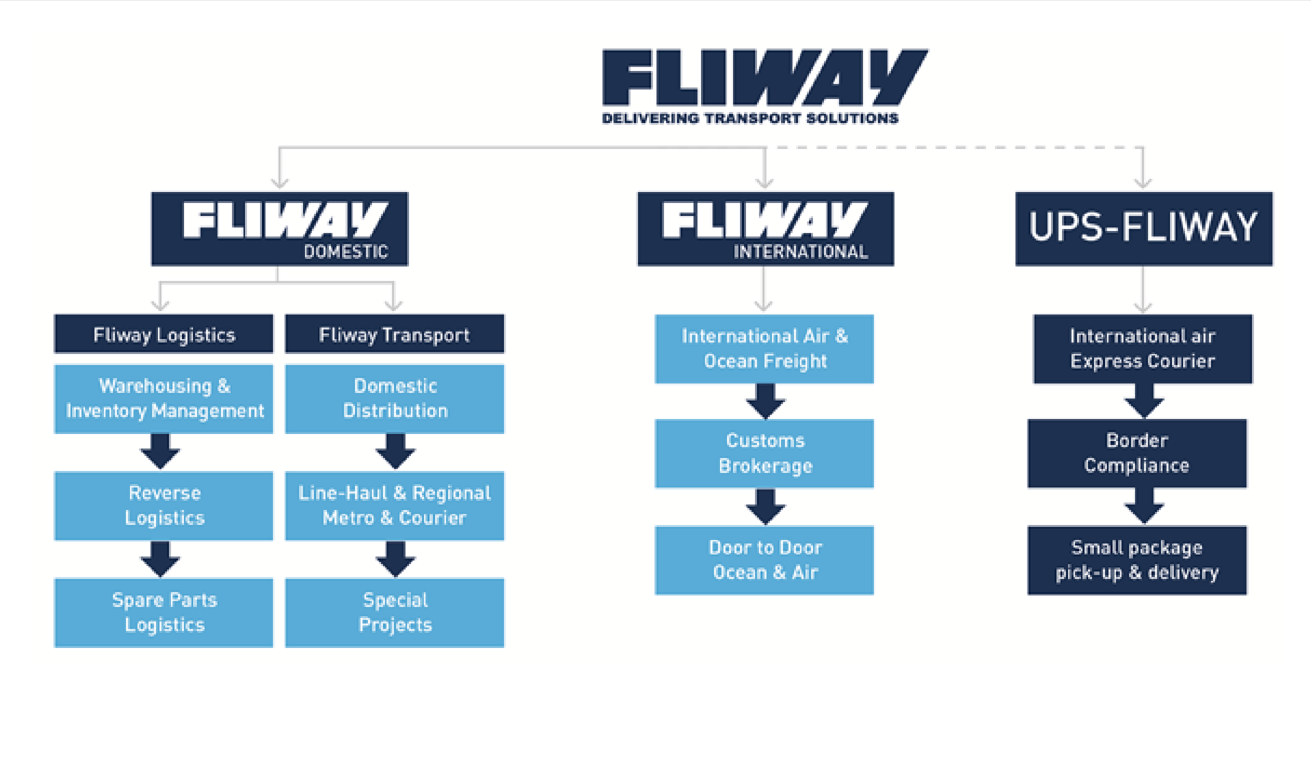
# 6. BUSINESS DESCRIPTION

## 6.1 Introduction

Fliway operates under two main divisions:

- Fliway Domestic (**Domestic**) – the warehousing and transportation of freight in New Zealand; and
- Fliway International (**International**) – the organising of transportation and border clearance for international freight.

Fliway also holds a 50% share in UPS-Fliway. UPS-Fliway delivers, or arranges the delivery of, express packages internationally.




**Fliway's people**

Fliway encourages its people to be focused on doing it right, first time, every time – and this quality and safety focus is recruited for, and internally developed, encouraged and rewarded. Over a third of Fliway's positions are recruited internally, with commitment through succession planning, performance feedback and development to increase this pipeline of talent in operational and leadership positions. From a people management perspective, Fliway tries to keep things simple and straightforward, so that the focus of its people is consistently on delivering high levels of customer service.

**Technology enables efficient handling of freight**

Fliway was one of the first transport operators in New Zealand to scan freight 22 years ago, and continues to invest in IT in an effort to remain at the forefront of supply chain technology. Fliway focuses on the deployment of smart technology solutions – using technology that is designed to improve visibility and consistency for customers and staff.

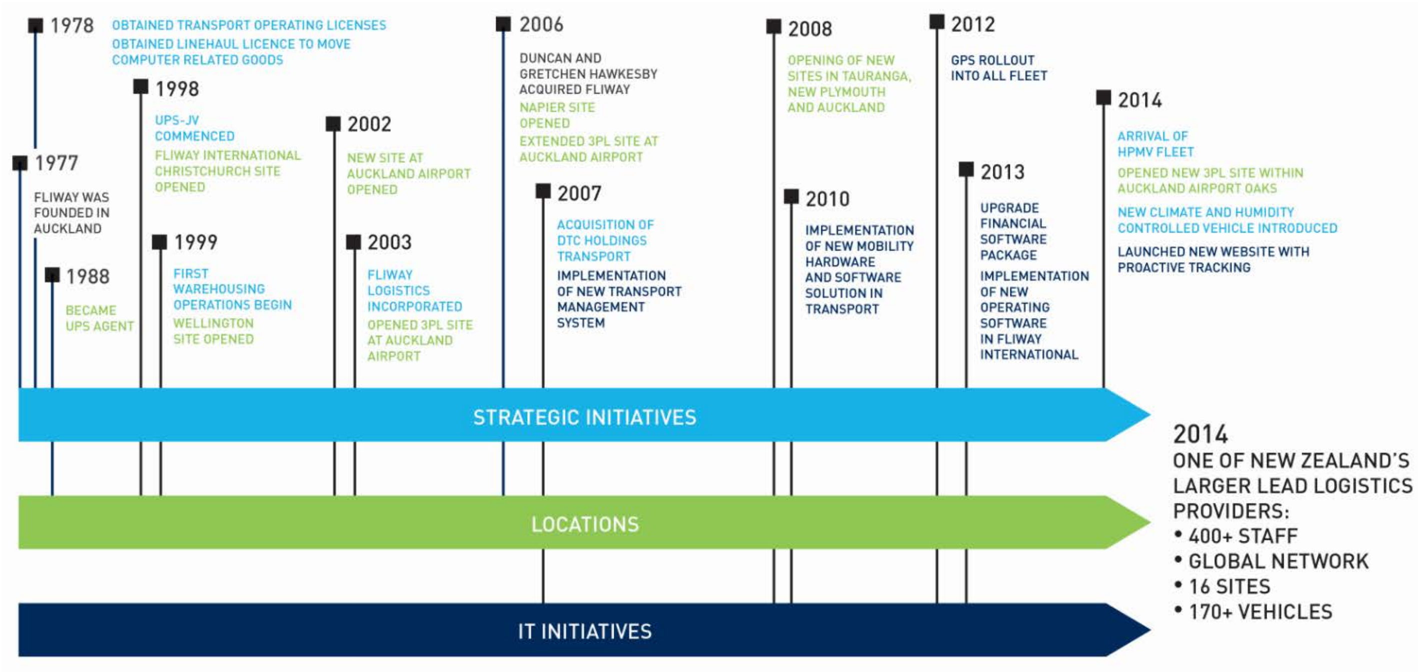
**Fliway is a one stop shop**

Fliway offers customers an end-to-end supply chain solution, allowing customers to have a single supplier responsible for every aspect of their supply chain.

To facilitate this Fliway has global partners, domestic nationwide coverage, and integrated facilities in key centres that are capable of receiving and despatching all freight modes. On a single integrated site Fliway can have international bond store areas, warehousing facilities and transport operations enabling it to handle freight fewer times and more promptly.

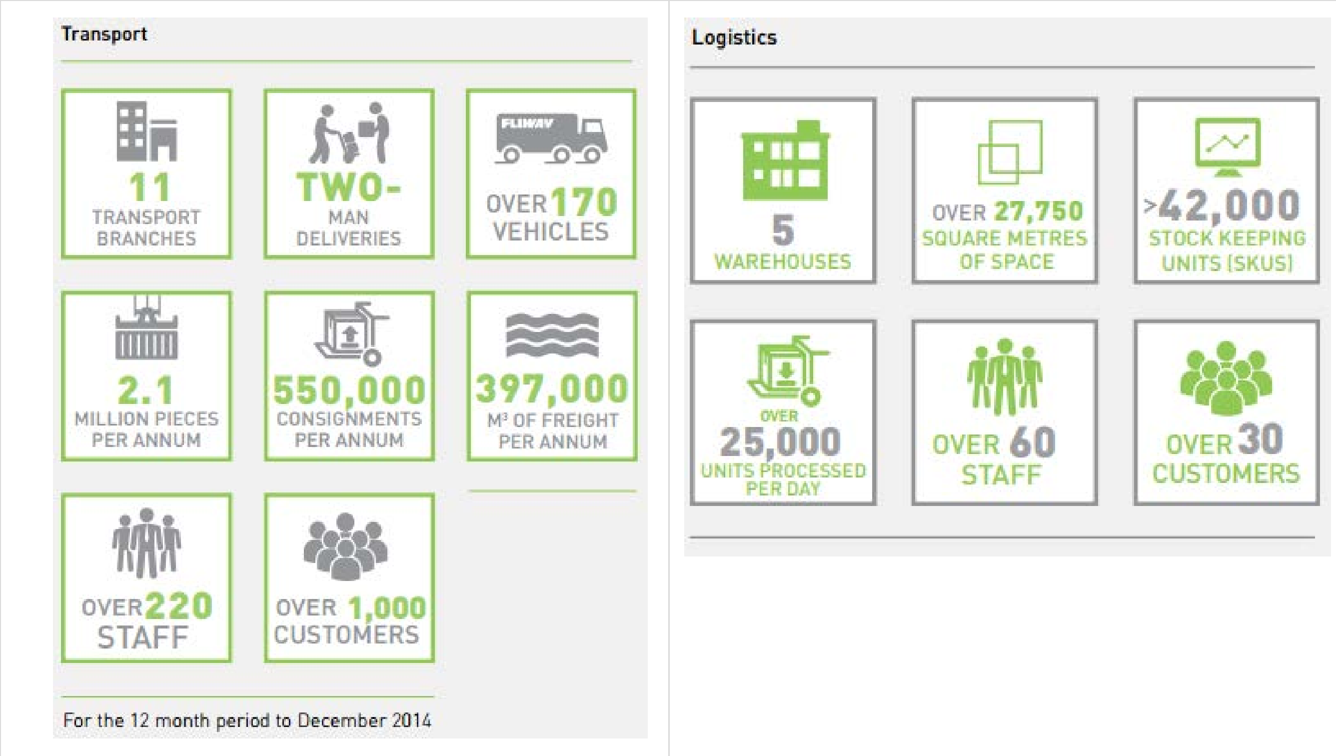
## 6.2 History of Fliway

Fliway was established in 1977 and has since grown to be a meaningful participant in the New Zealand transport and logistics industry.



## 6.3 Fliway Domestic division

Fliway Domestic operates through two business units: **Fliway Transport**, which involves the transportation of freight nationwide; and **Fliway Logistics**, which provides warehousing and distribution services.




**Description of operations**

The core business of Fliway Transport is the transportation of goods throughout New Zealand. Domestic freight is typically transported inter-city (**Line-Haul**) overnight using Fliway's truck and trailer fleet, with daily deliveries of smaller consignments using Fliway's fleet of smaller vehicles (**Metro**).

Fliway Logistics also provides warehousing and distribution services, including:

- racked and bulk storage;
- "reverse logistics" where Fliway manages product returns from retail locations back to Fliway's warehouses; and
- "spare parts logistics" where Fliway manages organisations' spare parts function.

Fliway Logistics operates from five modern facilities in Auckland (3), Wellington and Christchurch.

The service offerings of Fliway Logistics and Fliway Transport are complementary, affording opportunities for Fliway to provide one unit's services to the other unit's customers. This supports the growth of both units and the retention of customers.

**Point of difference**

Over time, Fliway has evolved the Fliway Domestic service offering based on the needs of its customers, who have demanded a service different to that provided by other firms. Fliway Domestic participates in sectors where customer demands are significant and include the requirement for technology supported solutions, speed of supply chain and the transport of freight that is often difficult to handle, fragile or of high value. To best service these specific needs, Fliway Domestic’s model has evolved and has some distinct differences to its counterparts.

- **Company owned. Company operated.**

  Fliway chooses to own its freight vehicles and operate them using its own employees to ensure a high degree of control over fleet specifications and consistency of its service offering. In Fliway’s view, the flexibility and service levels that a company-owned and operated model allows is a key differentiator in the market.

- **Fliway’s trucks are specialised.**

  Fliway predominantly utilises hard sided vehicles, with systems to secure freight and tail lifts to move items from the truck deck to the ground safely and securely. In Fliway’s view, this is more suitable for transporting sensitive freight, or freight of non-uniform size and shape.

  This equipment type is well suited for delivering to both commercial and residential properties, giving Fliway flexibility to service a wide range of customers.

- **Fliway’s depots are different.**

  Given the specialised vehicle configuration, Fliway’s depots and branch network are also specialised. Fliway’s trucks must be loaded and unloaded from the rear of the unit, so Fliway’s depots have raised docks. Unloaded freight is sorted by destination before reloading into the corresponding delivery vehicle, a process known as “cross docking” which is integral to Fliway’s “hub and spoke” operating model.

- **Fliway’s materials handling equipment is specialised.**

  Given the nature of the freight Fliway is transporting, it requires specialised materials handling equipment to enable it to move freight at the point of pick-up, delivery or within depots or warehouses.

- **Fliway has a Special Services team for projects.**

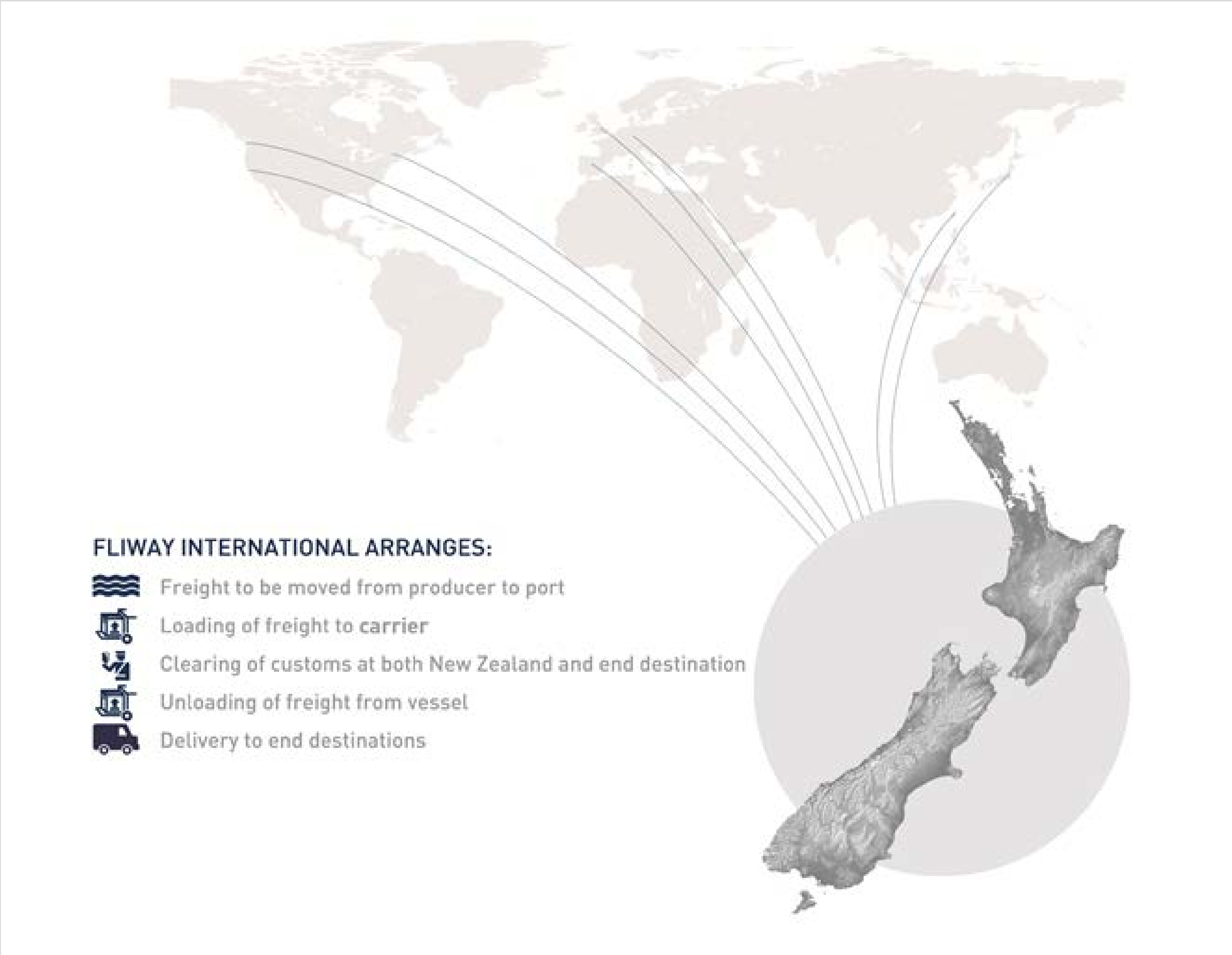
  Fliway has a team with specialist expertise and equipment used to transport, install and commission and locate “out of gauge” and highly sensitive freight. This Special Services team transports art, installs highly sensitive medical equipment and carries out other highly technical deliveries and installations.

## 6.4 International division

Fliway International provides inbound, outbound and “cross-trade”[40] international transport and border clearance services to customers. Goods are transported either by sea or air.


[40] “Cross-trade” is arranging the transport of goods where New Zealand is neither the country of origin or destination, for example between China and Australia.

**Description of operations**




Fliway International arranges the transportation of freight domestically and internationally, using a combination of external freight providers and / or Fliway's domestic transportation fleet. Fliway does not deliver freight outside New Zealand, but has arrangements with a range of international parties to fulfil these services on behalf of Fliway's customers. Fliway's relationships also allow it to manage cross-trade Freight Forwarding for its customers.

In Fliway's opinion, the business model of the International business unit is highly scalable. Employee numbers have remained relatively stable during the past two years notwithstanding a significant increase in incremental revenue over that period.

**Point of difference**

Fliway International has strong international agency relationships in all key trade routes. As an independent agent, Fliway is not restricted to any particular global network, which allows it to focus solely on securing the best outcome for its customers, based on price and the type of service an agent offers. Fliway International is one of New Zealand's largest customs brokers. It is consistently ranked amongst the top customs lodgers of entries by volume, performing approximately 96,000 clearances per annum. Fliway International's brokerage operation works 7 days per week and 52 weeks per year.

Fliway International provides Freight Forwarding and customs brokerage services to a range of customers servicing many industries, including electronics, aviation, medical, fitness and motor vehicles.

Key features of Fliway International's service offering include:

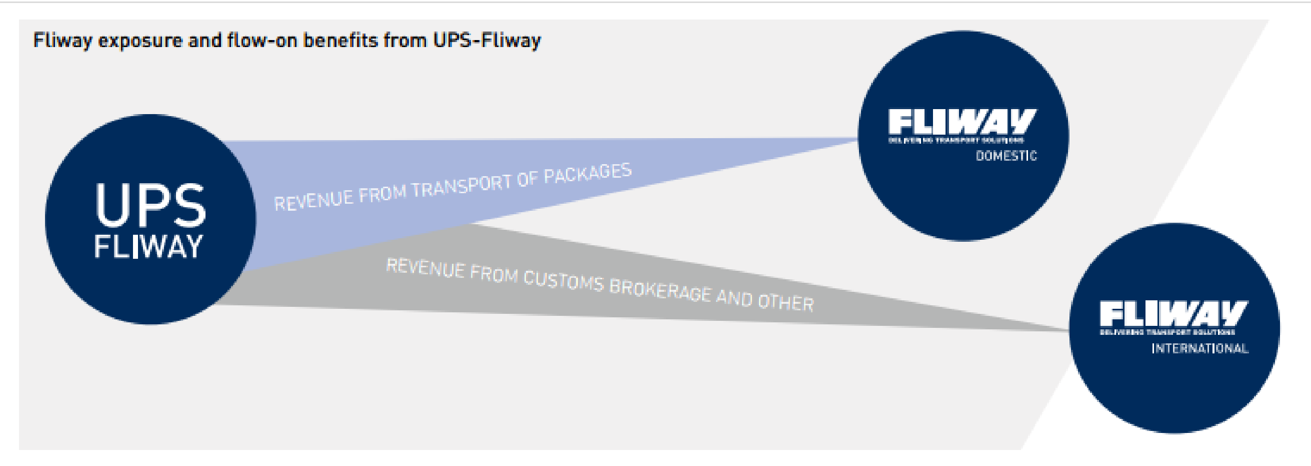
- an in-house customs brokerage team dealing with the New Zealand Customs Service and the Ministry of Primary Industries;
- airfreight accreditation with the International Air Transport Association;
- being a Regulated Air Cargo Agent in accordance with Part 109 of the Civil Aviation Rules;
- its facilities being customs controlled areas and approved by the Ministry of Primary Industries, allowing Fliway International to bring uncleared cargo to its sites pending clearance from the relevant Government agency;
- using an IT system that is a recognised leader in the industry;
- each senior broker being qualified and New Zealand Customs Service approved; and
- the use of individual electronic PIN coding by all senior Fliway International brokers.

## 6.5 UPS-Fliway

**Description of operations**

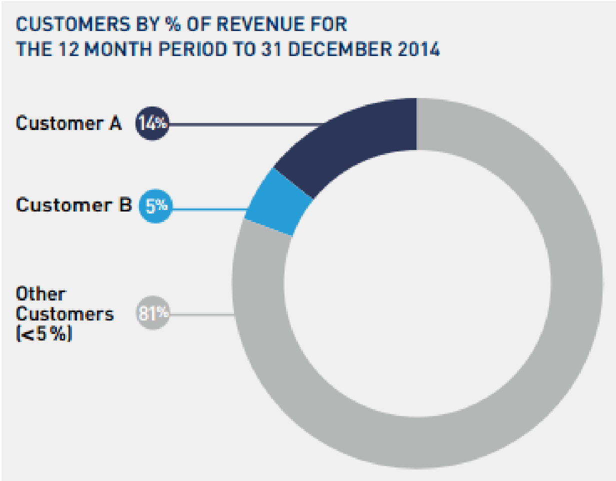
Fliway commenced an agency relationship with UPS in 1988. Almost 10 years later, in 1998, Fliway and UPS formed UPS-Fliway. UPS is one of the world's largest package delivery companies, delivering 4.3 billion packages and documents in 2013. UPS provides services to 9.4 million customers a day across more than 220 countries and territories. UPS-Fliway is a separate entity owned 50/50 by Fliway and UPS. UPS-Fliway employs approximately 30 staff. Fliway and UPS have equal board representation and day-to-day operations are overseen by UPS management. Fliway Transport provides domestic deliveries and pickups for UPS-Fliway, and Fliway International provides customs brokerage services.

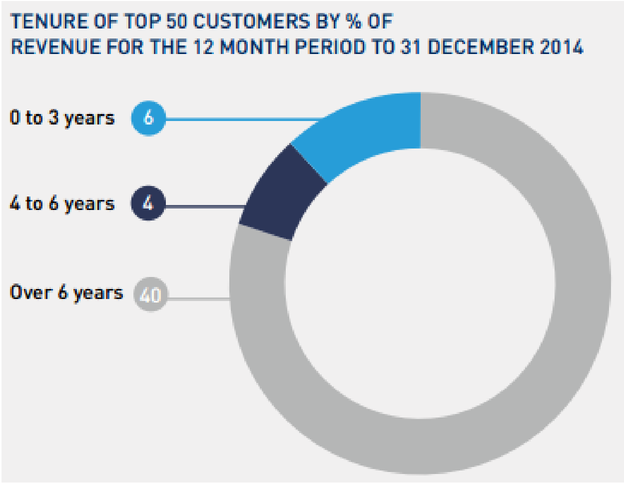
For more information on how UPS-Fliway contributes to Fliway's financial performance, refer to Section 9 *Financial Information.*



## 6.6 Customers

Fliway has a diverse range of customers, who have varied contract expiry profiles and tenure. No single customer exceeds 14% of Fliway's total revenue, and only two customers exceed 5%.



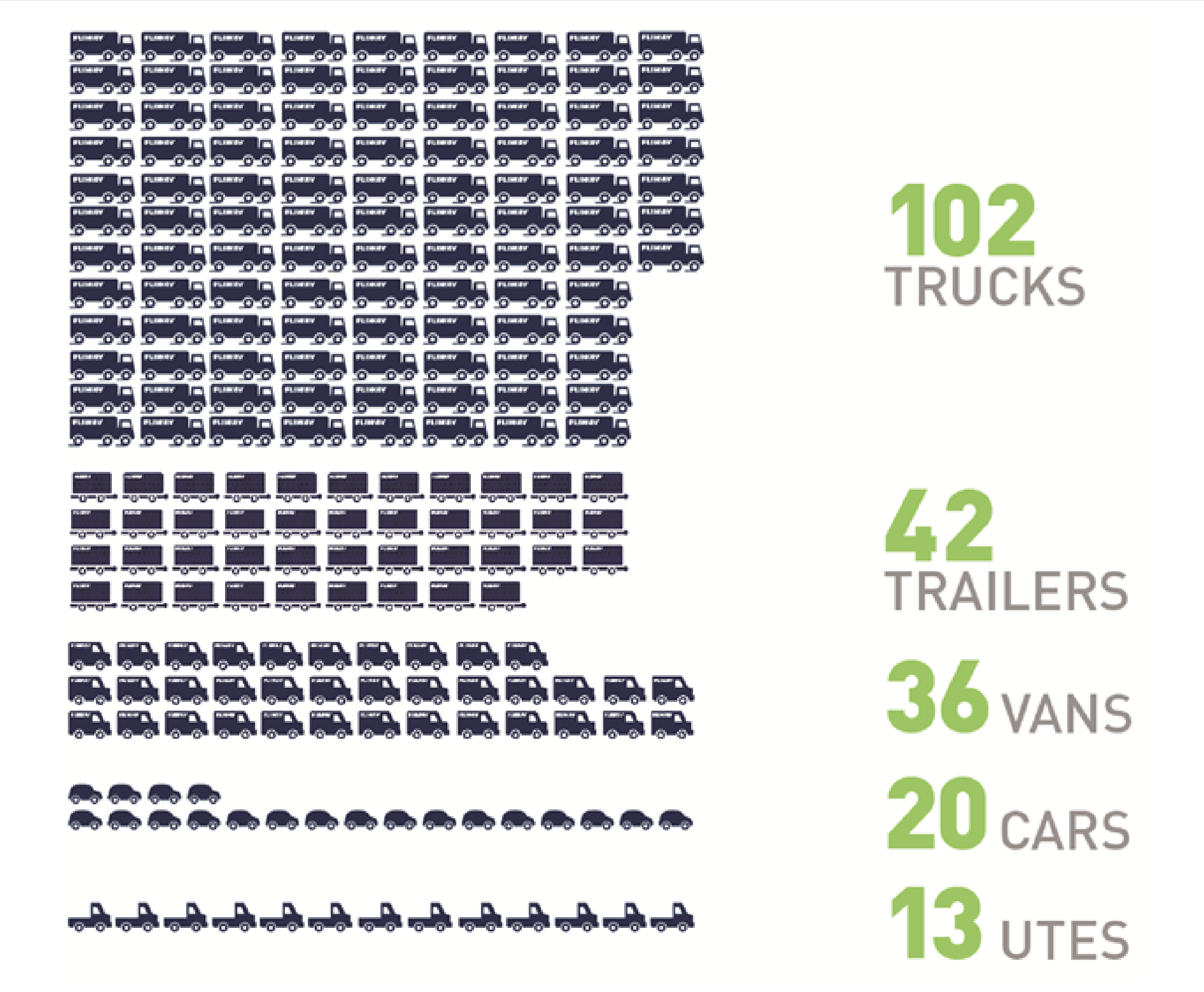

Fliway's customer base is broad and consists of over 1,000 customers ranging from sole traders to large multi-nationals. Fliway considers that its distinctive operating model and its focus on service has positioned it as a leading provider of specialised transport and warehousing in a number of sectors, including:

- commercial refrigeration;
- consumer electronics;
- home appliances;
- consumer transaction technologies;
- medical imaging; and
- copiers and printers.

Fliway also has customers operating across many other sectors including: office equipment; general freight; courier; gaming; sporting goods; apparel; plumbing; ICT; health and rehabilitation; vending; automotive; agricultural equipment; art; infrastructure and many more.

## 6.7 Fleet

Fliway's fleet comprises 102 trucks, 36 vans, 13 utes and 20 cars. In addition, Fliway owns 42 trailers.




Fliway owns and operates all its trucks and trailers (as compared to an owner-driver or leasing model) based on:

- a lower funding cost of ownership than leasing;
- the ability to offer differentiated services such as two person delivery teams and hard sided trucks; and
- consistency of service offering and ability to control the "last mile" (i.e., the point of delivery).

Fliway's Line-Haul fleet is managed and serviced centrally, with the majority of the trucks being operated under fixed cost per kilometre maintenance contracts. Fliway's Metro fleet is managed by the local Branch Manager and is maintained in their domiciled region.

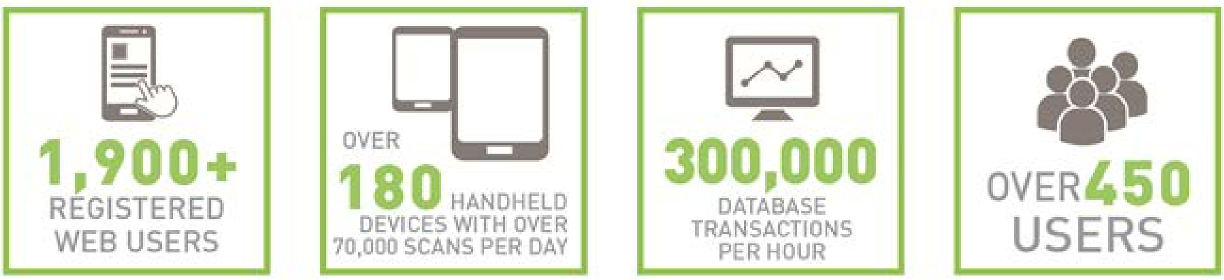
## 6.8 Locations

Fliway provides comprehensive geographic coverage across New Zealand through its 11 transport branches and 5 warehouses. These branches and warehouses are leased and predominantly purpose-built for Fliway to enable the transportation and handling of high service freight.


## 6.9 Information technology

Fliway invests in information technology applications, selected to meet the needs of each division. Across the Group, Fliway has integrated IT systems which can link with customers' systems through EDI interfaces. Fliway has extensive EDI implementation expertise and has personnel who monitor and manage this, supported by external partners.

Fliway's EDI interfaces enable customers to access real-time track and trace and order status. There is the capability for these interfaces to be customised for individual customers to give them increased supply chain visibility, which should mean better planning, improved efficiency and lower costs for them.




Over its recent history, Fliway has invested regularly and heavily in IT. Since FY10, Fliway has invested capital expenditure of over $1.8 million in IT.

## 6.10 Growth strategy

Fliway's vision is to build a significant transport and logistics business operating in New Zealand, based on its specialised service offering, infrastructure and expertise to target sectors where there are opportunities for Fliway to provide a distinctive service and deliver increased earnings.

Fliway focuses on three specific avenues for growth:

| | |
|---|---|
| **Optimising capacity** | Continuing to maximise operating leverage, including through using its capacity efficiently and gaining efficiencies from the use of technology. |
| **Growing existing business** | Fliway is a leading provider of specialised transport and warehousing in a number of sectors (for more information, refer to Section 6.6 *Customers*). Fliway plans to continue to invest in business development initiatives to target increased customer and market penetration in these existing sectors. |
| **Entering new markets** | Fliway has specialist equipment, facilities and expertise which is distinct from its competitors (for more information, refer to Section 6.1 *Introduction*). Fliway intends to leverage this equipment and expertise to target sectors which the business does not currently operate in. For example, Fliway could transport or warehouse other types of goods which require specialist handling equipment or facilities or acquire companies which currently transport or warehouse such goods. |

# 7. BOARD, SENIOR MANAGEMENT TEAM AND CORPORATE GOVERNANCE

Fliway's Board has a diverse range of skills and experiences, including in executive and governance roles at publicly listed companies and other significant entities.

The senior management team, led by Managing Director Duncan Hawkesby, will continue without change following the Offer. The senior management team has extensive industry experience, and has been an integral part of Fliway's history.

## 7.1 Fliway Board

The Fliway Board comprises an independent non-executive Chairman (Craig Stobo), an independent non-executive director (Alan Isaac) and an executive director (Duncan Hawkesby).

**Craig Stobo**
*Chairman and Independent Director*

Craig is a professional independent director and is currently Chairman of the listed companies Precinct Properties New Zealand Limited and AIG Insurance New Zealand Limited, the New Zealand Local Government Funding Agency Limited and OCG Consulting Limited. Craig is also a shareholder and Chairman of Saturn Portfolio Management Limited, Elevation Capital Management Limited, Appello Services Limited and Biomarine Group Limited.

**Alan Isaac**
*Independent Non-executive Director*

Alan was the President of the International Cricket Council for two years until June 2014 and is currently Chairman of Acurity Health Group Limited and Chairman of McGrathNicol and Partners. In addition, Alan is a director of listed companies Opus International Consultants Limited and Scales Corporation Limited and of various private companies. He is also Chairman of the New Zealand Community Trust. Alan has an extensive background in accounting and finance and is a former national Chairman of KPMG. He was made a Companion of the New Zealand Order of Merit in 2013 for services to cricket and business.

**Duncan Hawkesby**
*Managing Director*

Duncan Hawkesby has been Managing Director of Fliway since acquiring the business in 2006. In this role Duncan has led Fliway in its growth as a large scale, quality, and specialised freight transport, logistics and warehousing provider. Duncan now has over eight years' experience working in the New Zealand transport sector.

Prior to his role with Fliway, Duncan was Chief Executive Officer at Nature's Oven, a small food manufacturing business, and before that he held various roles at the Lion Nathan group.

Duncan Hawkesby has been a director of the Company since he (as trustee of The D & G Hawkesby Trust) acquired Fliway in 2006. Craig Stobo and Alan Isaac were appointed to the Board shortly before the Offer. Before their formal appointments as directors, each of Craig and Alan had spent a period of time developing an understanding of Fliway's business, including with Duncan and the other members of the Fliway senior management team. The Board has been meeting as an operating board of directors since late 2014 notwithstanding the fact that Craig and Alan had not been formally appointed.

## 7.2 Fliway senior management team

**Duncan Hawkesby**
*Managing Director*

See Section 7.1 *Fliway Board*.

**Jim Sybertsma**
*Chief Financial Officer*

Jim was appointed as Chief Financial Officer of Fliway in 2008. Prior to his appointment, Jim was Chief Executive Officer at Paradise Food Industries (Brisbane, Australia). Previously he has been Chief Financial Officer at New Zealand Dairy Foods Limited and Fonterra Brands (New Zealand) Limited and the General Manager of Finance and Administration at DB Group Limited (liquor division).

Jim is a Chartered Accountant and holds a Bachelors degree in Management Studies from the University of Waikato.

**Cameron McKeown**
*General Manager Domestic*

Cameron joined Fliway in 1993 and has more than 16 years' experience in various management roles at Fliway, having worked within all of Fliway's major divisions. Cameron was appointed as General Manager of Fliway Logistics in 2006 and in 2008 became General Manager of Fliway Domestic.

Cameron has 24 years' experience in the logistics industry.

**Gavin Satchell**
*General Manager International*

Gavin started as an Operations junior for Fliway in 1985. Since then he has worked across different management roles within the Fliway group and in 2006 was appointed as General Manager of Fliway International.

Gavin has 29 years' experience in the customs clearance, transport and international Freight Forwarding industries.

## 7.3 Selling Shareholders' interests in shares

The Selling Shareholders are the joint owners of 100% of the Shares in Fliway in their capacity as trustees of The D & G Hawkesby Trust. They will retain a stake of between 30% and 50% of their Shares following the Offer. If they sold such of their Existing Shares so that they retained a 30% stake, they would receive consideration of between $28.7 million and $35.0 million, based on the Indicative Price Range. The Selling Shareholders do not guarantee, or undertake any liability in respect of, the Offer Shares.

The Selling Shareholders have agreed with Fliway that, following completion of the Offer, they will not sell any Shares for a specified period. These restrictions are subject to certain limited exceptions, details of which are set out in Section 10.9 *Escrow arrangements*.

## 7.4 Corporate governance

The Board is committed to upholding standards in corporate governance, business behaviour and accountability in order to promote investor confidence. Consistent with this, the Board has endorsed the Corporate Governance Best Practice Code set out in the NZX Main Board Listing Rules.

**Role of the Board**

The Board has ultimate responsibility for the strategic direction of Fliway and for supervising Fliway's management for the benefit of its Shareholders. The Board's responsibilities include setting and overseeing the execution of Fliway's strategy, and supervising management in the operations of Fliway's business.

The Board has adopted a charter recording its commitment to best corporate governance practices (the **Board Charter**). The Board Charter describes the specific responsibilities, values, principles and practices that underpin the role of Directors on the Board. The Board Charter does not attempt to provide a complete record of all of the formal and informal rules associated with the role of the Board and should be read in conjunction with the Constitution and relevant laws, regulations, codes and guidelines.

The Board currently plans to meet not less than six times during the financial year, including meetings to consider Fliway's strategic direction and business plans. Video and / or phone conferences will be used as required.

Given its size, the Board has elected not to establish separate nomination or remuneration sub-committees. The total Board will attend to matters relating to nominations and remuneration.

**Audit and Risk Management Committee**

The Board has established an Audit and Risk Management Committee, as a sub-committee of the Board. The Audit and Risk Management Committee is responsible for overseeing the risk management (including treasury and financing policies), treasury, insurance, accounting and audit activities of Fliway, and reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies.

The members of the Audit and Risk Management Committee are Alan Isaac (Chairman), Craig Stobo and Duncan Hawkesby.

## 7.5 Policies and procedures

Once Fliway's Shares are quoted on the NZX Main Board it will be required to comply with the NZX Main Board Listing Rules and the disclosure requirements of securities and other laws in New Zealand. Key policies and procedures adopted by the Board, which will be effective from Listing, are as follows:

**Continuous Disclosure Policy**

The Board has adopted a Continuous Disclosure Policy to ensure that timely, orderly, consistent and credible information is communicated to the market. Fliway is committed to full and fair disclosure of any material information required by applicable NZX Main Board Listing Rules and fostering constructive relationships with Shareholders.

In particular, Fliway is committed to:

- communicating effectively with Shareholders, including through NZX's Market Announcement Platform (**MAP**) and maintaining an up-to-date website which provides Shareholders with information about Fliway, its business and affairs;
- giving Shareholders ready access to balanced and understandable information about Fliway and its corporate proposals; and
- making it easy for Shareholders to participate in Fliway's general meetings.

The Board is responsible for ensuring that Fliway complies with its disclosure obligations.

**Share Trading Policy**

The Board has adopted a Share Trading Policy which details Fliway's rules for trading in its Shares. The Share Trading Policy applies to Directors, officers, employees, contractors and secondees and is additional to the legal prohibitions on insider trading in New Zealand.

**Code of Ethics**

The Code of Ethics provides guiding principles outlining how all Directors, employees, contractors and advisers of Fliway and its related companies are expected to behave in the carrying out of their responsibilities. It is not an exhaustive list of acceptable behaviours; rather it facilitates decision making that is consistent with Fliway's values, business goals and legal and policy obligations.

## 7.6 Directors' interests

**Directors' remuneration**

Craig Stobo, as Chairman, receives Director's fees of $80,000 per annum. Alan Isaac, as Non-executive Director, receives Director's fees of $60,000 per annum. The Executive Director does not receive additional remuneration in his capacity as a Director.

The Directors have set the Directors' fees in aggregate for all Directors at $300,000 per annum. Prior to registration of this Prospectus, Fliway's Shareholders approved this total cap on Directors' fees for the purposes of NZX Main Board Listing Rule 3.5.1. Under NZX Main Board Listing Rule 3.5.1, if the total number of Directors of Fliway subsequently increases, the Directors are permitted (without seeking Shareholder authorisation) to increase the total remuneration by the amount necessary to enable Fliway to pay the additional director or directors remuneration not exceeding the average amount then being paid to each of Fliway's Non-executive Directors (other than the Chairman).

The Directors are also entitled to be paid for reasonable travel and other expenses incurred by them in connection with their attendance at Board or Shareholder meetings, or otherwise in connection with the Fliway Group's business.

**Directors' indemnity and insurance**

Fliway has granted indemnities in favour of each of its Directors and also maintains insurance for its Directors and officers in each case, to the extent permitted by the Companies Act 1993 and Securities Act.

## 7.7 Executive remuneration

**Base and short term performance incentive**

In addition to fixed base salary, some executives are also eligible for a short term performance incentive and / or a vehicle allowance or lease. The short term performance incentive is made up of a cash bonus which is a specified percentage of each executive's base salary.

## 7.8 UPS-Fliway Board

Fliway is entitled to appoint up to three of a maximum of six directors to the board of UPS-Fliway. Fliway's current representatives on the UPS-Fliway board are Duncan Hawkesby, Jim Sybertsma and Craig Magee.

# 8. WHAT ARE MY RISKS?

**Principal risks for investors**

The principal risk is that you may not be able to recoup your original investment or you may not receive the returns you expect.  This could happen for a number of reasons, including:

- the price at which you are able to sell your Shares is less than the price you paid for them;
- an inability to sell your Shares at all – for instance, because the market for them does not develop, becomes illiquid or ceases to exist;
- Fliway does not perform as expected and, as a result, may not be in a position to pay dividends;
- the operational and financial performance of Fliway is not as strong as expected; or
- Fliway becomes insolvent and is placed in receivership, liquidation or voluntary administration.

Any investment in the share market has risks associated with it and this investment is no exception.  The key risks specific to Fliway and other general market risks are set out below.  These risks, were they to occur, could have a material adverse effect on Fliway's financial position or performance through reduced revenue, increased costs, reduced cash flows, damage to reputation or a combination of these factors.

You should consider such risk factors together with the other information in this Prospectus.  In particular, you should read Section 6 *Business Description*, Section 7 *Board, Senior Management Team and Corporate Governance* and Section 9 *Financial Information*.

The risk factors set out below may not be the only ones faced by Fliway.  There may be additional risk factors of which Fliway is currently unaware, or that it currently deems not material but which may subsequently become key risk factors for the business.

The risk factors described below necessarily include forward looking statements.  Actual events may be materially different to those described below and may therefore affect Fliway in a different and / or more material way.

## 8.1 Risks relating to Fliway's customers

Fliway relies on ongoing demand for its services from its customers.  It is exposed to a range of associated risks, including risks related to fluctuating levels of demand from individual customers, the retention of customers and Fliway's ability to form new customer relationships in a competitive industry.  The most material of these risks are discussed below.

**Revenue from Fliway's existing customers may reduce**

Fliway is dependent on the continued custom of its customer base.  Fliway's customer contracts do not provide for any minimum volume commitments from its customers.  The level of demand from any individual customer can fluctuate within any given month as well as from month-to-month and year-to-year, depending on that customers' underlying business performance.  These fluctuations can be material. For example, nearly half of Fliway's revenue in 2014 came from its ten largest customers (by revenue). Of those ten customers, five of them had revenue increases or decreases of more than ten per cent in 2014 relative to 2013.  Fliway is exposed to the risk that the revenue that it receives from its customer base reduces, which could materially adversely affect Fliway's financial performance.  Such a reduction could be as a result of a worsening of economic conditions, a shift in consumer sentiment away from Fliway's customers' products, or other factors. A reduction in revenue from its customers could materially adversely affect Fliway's financial performance.

**Difficulties in forecasting demand may mean that Fliway's cost structure is less efficient**

Fliway's customers generally do not provide either minimum volume commitments or reliable forecasts of expected demand for upcoming periods. As a result, Fliway is required to prepare its own estimates of likely demand for its capacity planning purposes. Those estimates are used in a range of decisions, such as the level of warehousing space or fleet that Fliway will need for that period. As much of Fliway's cost structure is fixed (especially in the short term), its ability to respond to levels of demand that are different to its forecasts is often limited in the short term to contracting temporary resources at relatively high cost. This erodes Fliway's margins. As with any forecasting process, Fliway's estimates of likely customer demand regularly end up being different to actual demand, particularly given the volatility of Fliway's customer demand described above. At times, these differences have been material and have had a material adverse impact on Fliway's financial performance. For example, if Fliway underestimated the level of demand in its Transport division, it may have to hire temporary vehicles that have a higher cost than its permanent fleet until it can procure additional fleet or establish permanent capacity. Conversely, if Fliway overestimated the level of demand, it would be incurring costs associated with owning a larger fleet than was required to meet customer demand. As a further example, if Fliway underestimated the amount of storage capacity required by customers of its Logistics division, it may have to incur additional costs associated with arranging temporary capacity. Conversely, if Fliway overestimated the level of storage capacity required, it would be incurring costs associated with warehouse capacity that was not required to meet customer demands. The impact on Fliway's financial performance could be materially adverse. For more information on the impact on a change in Fliway's capacity requirements, refer to *Section 9.4: Prospective financial information* under the heading "Sensitivity analysis".

**Fliway faces aggressive competition**

Fliway operates in a highly competitive sector and faces competition from a number of international, national and regional freight and logistics providers, including various transport operators, express companies, Freight Forwarders, air couriers and others. The market share of these competitor organisations may increase relative to Fliway's share as a result of various factors, including changes in customer preferences towards services offered by those other providers for any reason. This could include those competitors:

- acquiring or developing technologies which give them a competitive advantage over Fliway;
- increasing their scale or range of services;
- improving their delivery coverage or delivery times;
- lowering their pricing; or
- undertaking strategic moves to combine or consolidate in some way.

Fliway's business could also be negatively impacted if a significant new competitor, or new competitors, entered the market. The impact of operating in a highly competitive sector is particularly acute given the fact that, consistent with industry practice, many of Fliway's contracts with customers are subject to periodic tender and renewal processes. Contract terms tend to be relatively short, with the term of Fliway's contracts with customers often being less than three years. As a result, in any given period Fliway will have a number of customer contracts scheduled to expire. For example, contracts with three of Fliway's top ten customers by 2014 revenue are scheduled to expire in 2015. In aggregate, these three contracts represented approximately 12.3% of Fliway's 2014 revenue. Fliway is likely to have to participate in a competitive tender process in order to retain a number of those contracts. There can be no guarantee that Fliway will be successful in any such processes. Even if it is successful, Fliway may have had to agree to less favourable terms with the relevant customers. Customer loss, or retaining customers on less favourable commercial terms, could have a material adverse effect on Fliway's revenues and profits.

Further, consistent with common industry practice, some of Fliway's contracts with its customers may be terminated without cause or for performance issues by the customer on relatively short periods of notice. As a result, Fliway faces risks associated with customer loss in any given period irrespective of whether or not any customer contracts are due to expire in that period.

**Fliway faces risks associated with managing its customer relationships**

Fliway's relationships with its customers and the prices Fliway charges them (and as a result Fliway's financial performance) could be materially adversely affected by a number of factors associated with its customer relationships, including, for example:

- decisions by customers to diversify or change their provider of freight or logistics services (including as a result of new competitor entry, lower pricing by a competitor or customer dissatisfaction with Fliway's services);
- decisions by customers to in-source, in whole or in part, the functions that they currently outsource to Fliway;
- the inability of Fliway to agree acceptable pricing or other terms with its customers;
- the inability of Fliway to comply with contractually agreed service levels and the financial impact of any such non-compliance;
- disputes between Fliway and its customers; and / or
- if a section of Fliway's customer base was to consolidate in some manner.

## 8.2 Risks relating to Fliway's people

Fliway employs a workforce of more than 400 people across New Zealand. Many of Fliway's employees' work involves dealing with vehicles and machinery, such as trucks and forklifts. Fliway is exposed to a number of risks associated with its workforce, the most material of which are discussed below.

**Fliway depends on certain key individuals**

The success of Fliway's business is dependent on the leadership of its key management personnel, including Duncan Hawkesby, Managing Director, and other members of the senior management team (see Section 7 *Board, Senior Management Team and Corporate Governance* for more information on the key managers of Fliway). For example, customer relationships are a very important aspect of Fliway's business and those relationships are often dependent on long-standing personal relationships between a member of the Fliway senior management team and their contact at the relevant customer. As a result, the loss of a key person could damage Fliway's relationship with important customers. Further, a loss of key personnel could have a materially adverse effect on Fliway's leadership and institutional knowledge. Although Fliway endeavours to manage these risks through the inclusion of restraint of trade provisions in its employment agreements with its senior management team and providing market remuneration packages, such protections will only apply for finite periods of time and cannot protect against these risks other than in the short term.

**If Fliway is unable to recruit and retain qualified staff, it would be adversely affected**

Fliway's future success relies on its ability to continue to recruit, retain and motivate suitably skilled and qualified personnel; particularly qualified truck drivers. There is a limited group of skilled personnel with the appropriate experience and, as a result, Fliway can face strong competition for such personnel. For example, Fliway has experienced very strong competition for qualified truck drivers in the Canterbury region following the earthquakes in 2010 and 2011. Fliway may be adversely affected if it is unable to recruit suitably qualified employees or if it loses its existing employees (who could then be difficult to replace). Even if it is able to attract and retain the required qualified personnel, Fliway may be required to pay more than it currently expects to pay in order to do so. These additional costs could have a material impact on Fliway's financial performance.

**The relatively dangerous nature of the work performed by Fliway's employees exposes it to certain health and safety risks**

Fliway engages in potentially high risk activities including the operation of heavy equipment (such as trucks and forklifts). As a result, there is a potential risk to the health and safety of Fliway's employees and contractors and / or its customers or members of the public. If Fliway does not comply with its health and safety obligations it could be subject to a range of enforcement activity, including directions to take remedial action and / or summary criminal prosecutions and fines, if convicted. Fliway monitors health and safety incidents regularly, including reporting of accidents and other incidents weekly and of days lost through injury monthly. Given the nature of Fliway's activities and size of its 400+ workforce, Fliway can regularly have multiple reported accidents in a month and has been prosecuted under the Health and Safety in Employment Act in the past eight years. An increase in the level of health and safety incidents, or a particularly serious incident, has the potential to negatively affect Fliway's revenues and profitability, including as a result of damage to Fliway's reputation, brand or staff culture.

New Zealand's health and safety legislation is currently under review. It is expected that significant amendments will be made to the legislation this year. This could alter the extent of Fliway's general health and safety obligations. These changes may increase costs for Fliway's business and impact on its profitability.

**Fliway may be subject to personal grievance claims, which could be material**

Given the size of its workforce, there is a risk that Fliway will be subject to personal grievance claims by its employees from time to time. There is a risk that a personal grievance claim could have a materially adverse effect on Fliway, whether as a result of direct financial exposure, damage to Fliway's reputation, or otherwise.

## 8.3 Risks relating to business disruptions

Fliway's business is reliant on the continued and uninterrupted performance and availability of its fleet and facilities as well as the wider New Zealand transport infrastructure. As a result, it is exposed to risks associated with the availability of these resources being disrupted. The most material of these risks are described below.

**Fliway's business is dependent on the availability of its fleet, facilities and people**

Across New Zealand, Fliway operates 11 transport branches, 5 logistics warehouses and a fleet of over 170 vehicles. On occasion, unanticipated equipment failures can result in vehicle break downs, material facilities shut downs or periods of reduced production. Such failures can lead to Fliway incurring additional costs (for example, as a result of renting alternative equipment, freight missing transit connections, and the costs involved in service recovery) and / or negatively impact customer relationships if, as a consequence, Fliway fails to meet contracted customer service levels. As a result, Fliway's financial performance could be adversely affected.

In addition to equipment failures, each of Fliway's facilities is subject to operating risks such as industrial accidents (including fire), extended power outages, withdrawal of permits or licenses, catastrophic events (such as a major earthquake, a landslide, a fire, a flood, a cyclone, an explosion, an act of terrorism or other disaster) and prolonged maintenance activity. Further, Fliway's business operations risk disruptions from labour disputes, strikes or work stoppage by employees. Any interruption in capability may require Fliway to undertake material capital or operational expenditure to remedy the cause of the interruption and could cause lost sales, reduced revenues and profits.

**Fliway relies on New Zealand transport infrastructure**

A key aspect of Fliway's business is the transportation of freight throughout New Zealand. Accordingly, Fliway depends on the ongoing fitness and availability of New Zealand's transport infrastructure such as roads and ferries. Fliway's delivery schedule can be materially affected in the event that a road is impassable by the relevant Fliway vehicle as a result of closure or road-works. Such a disruption can result in Fliway being required to divert its fleet via an alternative route, which can involve Fliway incurring additional costs.

In particular, given the limited number of ferries that cross Cook Strait, Fliway's business operations can be materially disrupted in the event of an unanticipated failure of one of those ferries. For example, this can occur as a result of a ferry breaking down or inclement weather. An inability to make a scheduled crossing of Cook Strait has a number of implications for Fliway's business, including failing to deliver a customer's freight on-time and the likely need to hire temporary fleet (as the vehicle waiting to make the crossing becomes unable to transport the freight it had been scheduled to).

These disruptions can lead to Fliway incurring additional costs, which could be material. Further, it can impact Fliway's customer relationships if targeted delivery times are not able to be achieved as a result (although Fliway generally excludes liability arising as a result of a delay caused by such an event).

## 8.4 UPS-Fliway Joint Venture risks

Fliway was appointed as New Zealand agent for United Parcel Services in 1988. In 1998 Fliway and UPS established a joint venture, through UPS-Fliway.

UPS-Fliway is a stand-alone company with its own management, which is owned 50/50 by each of Fliway and UPS. UPS-Fliway has its own board of directors, comprising three representatives of Fliway and three representatives of UPS. UPS-Fliway's day to day operations and its accounting, treasury and tax functions are overseen by UPS management.

Each of Fliway and UPS has contracted to provide certain services to UPS-Fliway. Fliway receives income as a 50% shareholder in UPS-Fliway and also through the provision of domestic transport services, customs brokerage, and the provision of premises and ancillary services.

In aggregate these discreet activities form a material portion of Fliway's earnings.

Participation in this joint venture raises risks which are different from those faced by Fliway in its stand-alone operations. In particular, UPS and UPS-Fliway are arms' length entities that have their own interests and goals which may differ from Fliway's. As a result, those entities may act in a way that is contrary to Fliway's interests or goals. The service contracts under which UPS-Fliway is provided with services by each of UPS and Fliway are able to be terminated in certain circumstances, including on notice without cause. The termination of any of these arrangements could have a materially adverse impact on Fliway, and / or UPS-Fliway.

The agreement establishing the joint venture is perpetual in term. However either of the two joint venture partners (UPS or Fliway) could make a business decision to attempt to restructure its New Zealand operations away from the current joint venture, or seek to exit the joint venture by taking unilateral actions that could adversely affect its on-going viability. The Joint Venture Agreement does, however, materially limit either joint venture partner from competing with UPS-Fliway in New Zealand while the Joint Venture Agreement remains in place. In Fliway's opinion, a commercial negotiation between the two partners is the most likely outcome if either party wished to attempt to restructure or exit the joint venture. If the UPS-Fliway joint venture was terminated or ceased to be viable, it would materially impact Fliway's financial performance, notwithstanding the receipt of any compensation for the value of Fliway's shares in UPS-Fliway.

As is common with joint venture arrangements, each shareholder in the joint venture company has pre-emptive rights over the other shareholder's shares. Under those pre-emptive rights, if one of the shareholders wishes to sell its shares in the joint venture the other shareholder has the right, but not the obligation, to acquire those shares either at a price agreed between them or, if they cannot agree, at an independently determined fair market value.[41] Those pre-emptive rights can also be triggered if there is a change of the effective ownership or control of a shareholder in the joint venture or the holding company of a shareholder (for example, where a third party acquired a controlling interest in a shareholder in the joint venture or in that shareholder's holding company).[42]

UPS also has an evergreen option to acquire between 5% and 7% of the shares in the joint venture company from Fliway. The price payable by UPS if it exercised that option would be based on a market price earnings ratio determined by independent third parties or consultants. If UPS exercised that option, Fliway's holding in the joint venture company would reduce from 50% to between 43% and 45%. However, Fliway would retain its rights to appoint three of the six directors of the joint venture company.

As it uses the "Fliway" name, Fliway's key stakeholders will continue to associate UPS-Fliway's conduct with Fliway. However, Fliway does not manage or control the day-to-day operations of UPS-Fliway. As a result, there is risk that UPS-Fliway acts in a way that has an adverse impact on Fliway's reputation or position in the market.

## 8.5 Risks relating to insurance

**Fliway may be subject to losses that it is not fully insured against**

Although Fliway generally seeks to limit its liability in its contracts with its customers, there is no guarantee that such contractual limits will be sufficient to ensure that Fliway is not subject to costs or losses from claims associated with the services it provides. Fliway's insurance coverage may not be adequate to cover any significant future claims, whether because a claim falls outside the scope of Fliway's policies or the quantum of the claim exceeds the sum insured. A successful claim against Fliway that is not covered by its insurance could have an adverse effect on its reputation and business.

In addition to losses associated with customer claims, Fliway seeks to insure itself against a range of other losses, such as losses associated with business interruption. However Fliway does not insure itself against all known or possible losses. Further, even if losses suffered by Fliway are of the type that is covered by Fliway's insurance, there is no assurance that the levels of that insurance would be sufficient to cover the loss suffered. Losses suffered by Fliway that are not covered by its insurance will reduce its value. These losses could be material.

**Insurance may become more expensive or unavailable**

There is no certainty that Fliway will continue to be able to obtain insurances of the types and with the cover that it requires or that these insurances will continue to be available to Fliway at a reasonable cost, whether as a result of its claims history and risk profile or pricing changes in the relevant insurance markets generally.

[41] The Joint Venture Agreement also provides that if one party decides to sell its shareholding to a third party, it will be deemed to have granted to the other party an option to acquire such of its shares in the joint venture company that comprise ten per cent (10%) of the total shares of the joint venture (which the other party could decide whether or not to exercise).

[42] Fliway does not consider that the implementation of the Offer will trigger pre-emptive rights because it will not result in a change in the effective ownership or control of Fliway. If, in the future, another shareholder obtains the effective control of Fliway, this change is likely to trigger these pre-emptive rights meaning that UPS would have the option to acquire Fliway's shares in UPS-Fliway (which UPS could decide whether or not to exercise).

## 8.6 Risks relating to information technology

Fliway relies on the proper functioning of information technology systems for the successful operation of its business. The key systems on which Fliway relies are licensed from, and supported by, third parties. If critical information technology systems fail or are otherwise unavailable, or the services of third party IT support contractors are unavailable or delayed, Fliway's business could be disrupted.

In addition, from time to time Fliway implements changes to its information technology systems, such as upgrading to a more recent version of an existing system or replacing one system with a new system licenced from a different party. Fliway is expecting to upgrade one of its information technology systems during 2015. Although Fliway will endeavour to take mitigating steps, any software upgrades or implementations expose Fliway to a range of risks, including ultimately that the upgrade or implementation would disrupt Fliway's ability to operate its business.

## 8.7 Risks relating to Government strategy and regulation

**Fliway may fail to comply with applicable laws**

Fliway's operations are subject to a number of complex and stringent transportation, environmental, labour, employment and other laws and regulations. These laws and regulations generally require Fliway to maintain and comply with a variety of certificates, permits, licenses and other approvals. Fliway's failure to maintain required certificates, permits or licenses, or to comply with applicable laws, regulations or by-laws, could result in substantial fines or a possible revocation of its authority to conduct its operations. For example, Fliway is required to hold a Transport Service Licence in order to operate the Fliway Transport business in New Zealand. If that licence was revoked, it would have a material impact on Fliway's financial performance.

Further, any involvement by Fliway in regulatory inquiries or investigations (whether industry-wide or specific to it) will add cost to Fliway's business, could negatively affect its reputation and could be a material distraction for management.

**Fliway may be impacted by changes to legislation or Government policy**

Fliway's business may be adversely affected by changes in Government policy or legal and regulatory changes or requirements, such as changes to the legislation, regulations and codes relating to transport operations (such as road use), occupational health and safety, environmental issues, employment standards, tax, competition and local government. Further, Fliway's business is impacted by policies, laws and regulations that affect global trade, including tariff and trade policies, export requirements, taxes and other restrictions and charges. Changes in those laws and regulations may alter the landscape in which Fliway does business and may affect Fliway's costs of doing business, which may increase Fliway's operating costs or require significant capital expenditures. For example, Fliway's business may be adversely affected by a decision by central Government to provide significant funding to support KiwiRail or develop New Zealand's rail network.

## 8.8 Risks relating to suppliers and input costs

Fliway engages a range of suppliers and contractors in the provision of its services. For example, Fliway often contracts resources such as labour, vehicles and warehouse space on a temporary basis to manage increases in demand over the short or medium term. Given its varying requirements, Fliway does not generally enter into long term agreements with a many of its suppliers to secure volumes or capacity. Generally Fliway is able to contract the resources it requires from various sources. However, Fliway faces a range of risks associated with its reliance on its supplier network. There is no certainty that Fliway will be able to continue to procure the resources it needs, either on its current terms or at all. If Fliway is no longer able to procure the required resources, its business operations may be adversely affected.

Fuel and road-user charges represent material costs for Fliway, although it endeavours to pass those costs directly on to its customers. However, if those costs fluctuate materially, Fliway may not be able to pass on all of its costs or its margins may be materially reduced. This would have an adverse effect on Fliway's financial performance.

Fliway is heavily dependent on the continued availability of fuel at commercially reasonable rates. Fliway would be materially and adversely affected if circumstances arose that created a global shortage of fuel or if the availability of fuel in New Zealand was significantly restricted.

## 8.9 Risks relating to disputes and litigation

Fliway may from time to time be the subject of, or become a party to, complaints, disputes, litigation or inquiries. These may arise in the ordinary course of Fliway's business or otherwise and may be initiated by its customers, suppliers, employees, commercial partners, Governmental or Governmental agencies or other stakeholders alleging or investigating matters such as issues involving service quality, damage to or loss of inventory held by Fliway (for example in its warehouses), billing and payment, injury, health, environmental factors, nuisance or failure to comply with applicable laws, regulations or contractual obligations. Such matters, even if successfully addressed by Fliway without direct adverse financial effect, could have an adverse effect on Fliway's reputation and divert its financial and management resources from more beneficial uses. If Fliway were found to be liable under any such claims, this could have a material adverse effect on Fliway's future financial performance. Refer to Section 12.18 *Pending proceedings* for a description of an anticipated claim by a former customer against Fliway. Refer also to Section 12.17 *Material contracts* under the heading "Indemnity from Selling Shareholders" for a summary of an indemnity given in favour of Fliway by the Selling Shareholders that may protect Fliway against losses arising from third party claims relating to events that occurred before the allotment of Shares under the Offer.

## 8.10 Risks associated with growth initiatives

**Competition**

Fliway would expect to face competition from other companies based in New Zealand and Australia involved in any acquisition opportunities that it might consider, whether relating to the consolidation of the industry or otherwise. This competition may increase the price that Fliway would be required to pay for acquisition targets or limit the opportunities that Fliway has to make acquisitions. This may adversely affect Fliway's ability to execute its growth strategy.

**Risks arising from managing growth and efficiency initiatives**

Future growth and improvement in Fliway's operating results depends in part on management's ability to successfully manage growth and efficiency initiatives. Fliway expects that these initiatives may require a change to a number of its business operations and associated management disciplines, such as revenue forecasting, controlling expenses, implementing infrastructure and systems and managing assets. Inability to control the costs and organisational impacts of business growth or an unpredicted decline in the growth rate of revenues without a corresponding and timely reduction in expense growth or a failure to manage other issues arising from growth could adversely affect Fliway's operating results.

**Availability of funding**

If Fliway seeks to grow through acquisitions, any such acquisitions would be likely to be financed by a combination of debt and equity funding. Fliway's ability to pursue this strategy may be limited if access to further debt and equity funding is constrained.

## 8.11 Major shareholder risks

The Selling Shareholders will continue to own between 30% and 50% of the Shares in Fliway after the completion of the Offer (see Section 10 *Details of the Offer* for more information on the sell down of this shareholding). Any decision by the Selling Shareholders to further materially reduce their stake in Fliway, or the perception that such a sale has or might occur, could have a material adverse effect on the price of Fliway Shares and the value of Fliway. Fliway has mitigated this risk to a limited extent through the implementation of the Escrow Deed (for more information see Section 10.9 *Escrow arrangements* and Section 12.17 *Material contracts*).

The implementation of the Escrow Deed and retention of some Existing Shares by the Selling Shareholders after the Offer has closed may cause, or contribute to, a limited liquidity in the market for Shares. This could affect the market price at which other Shareholders are able to sell their Shares.

The Selling Shareholders will have the ability to determine or influence the outcome of matters submitted to the vote of Shareholders, including the election of Directors. The interests of the Selling Shareholders may differ from the interests of Fliway's other Shareholders and this may adversely affect Fliway's share price and other Shareholders.

Further, the fact that the Selling Shareholders will continue to own a large stake in Fliway after the completion of the Offer will mean that Fliway is considerably less likely to be the subject of a takeover offer by a third party, unless it is supported by the Selling Shareholders. This may lead to Fliway Shares trading at a lower price than might have been the case if a takeover offer was possible.

## 8.12 Risks relating to economic conditions

Due to the nature of Fliway's operations, Fliway's financial performance and position depends upon both the performance of the New Zealand economy and New Zealand business activity, as well as the economies and business activities of various other countries. A contraction in the New Zealand or global economy may impact upon the performance of Fliway by reducing demand for Fliway's services and / or affecting Fliway's costs.

The factors that create cyclical changes to those economies and businesses are beyond Fliway's control and it may be difficult for it to adjust its business model to mitigate the impact of those factors. In particular, Fliway's business is affected by levels of consumer spending, retail activity, inflation, exchange rates and the Government's regulatory and fiscal policy. These factors are often interrelated, for example exchange rate movements may impact consumer spending patterns or levels. Fliway's business and financial position and results of operations could be materially adversely affected by adverse developments in these aspects of the economy. For example, the level of demand for Fliway's services may not continue at prevailing levels and on similar terms.

## 8.13 Risks relating to brand and reputation

Fliway's success depends in part on its ability to maintain the image of the Fliway brand and reputation for providing excellent service to customers. Service quality issues, actual or perceived, could tarnish the image of Fliway's brand and may cause customers to use other competitors. Also, adverse publicity surrounding employment relations, environmental concerns, health and safety matters and the like, could negatively affect Fliway's overall reputation. Damage to Fliway's reputation and loss of brand equity could reduce demand for Fliway's services and therefore have an adverse effect on Fliway's revenue and profitability. Additional resources may be required to rebuild Fliway's reputation and restore the value of the brand, which could further affect Fliway's profits.

## 8.14 Failure to comply with bank facilities

No assurance can be given that any refinancing required from time to time will be available on terms favourable to Fliway. In such circumstances, if Fliway is unable to secure refinancing on favourable terms, this may have a material adverse effect on Fliway's profitability.

A decline in revenues and profits could cause Fliway to breach its financial covenants in its bank facilities. A financial covenant is an agreement with Fliway's banks to maintain certain financial and other ratios (see Section 12.20 *Restrictions on issuing group* for a summary of Fliway's bank facility covenants and undertakings). Non-compliance with any covenant or undertaking in a bank facility (financial or otherwise) would result in an event of default or event of review occurring and may prevent Fliway from borrowing under the bank facilities. Consequences of an event of default or event of review may include increased financing costs and other re-negotiated terms which may be more restrictive, decreased or no availability of debt funding, acceleration of repayment of all outstanding amounts and enforcement of security, any of which could result in Fliway's insolvency.

Restrictive covenants in Fliway's bank facilities may also restrict operations and affect its financial flexibility and its ability to pay dividends.

## 8.15 Exchange rate risks

Fliway's international division incurs certain costs in currencies other than New Zealand dollars, particularly Australian and US dollars. Because Fliway reports its financial results in New Zealand dollars, there is a risk that unfavourable foreign exchange movements will adversely impact Fliway's financial performance. Fliway is able to partially mitigate the effect of this exposure by billing customers in the same currencies as it incurs costs. However this does not provide full protection against the potential impact of adverse foreign exchange movements.

## 8.16 Changes in interest rates

Adverse movements in interest rates may increase Fliway's cost of funds and, therefore, reduce its profitability.

## 8.17 Taxation risks

A change to the existing rate of company income tax, or other changes to tax law or practice in New Zealand or in other relevant international jurisdictions which affect Fliway, may affect Fliway's returns. A change to tax law applying to you personally could affect your returns.

## 8.18 Customer collections

If Fliway is unable to collect payments from customers, its operating results would be adversely affected. Some of Fliway's customers may have liquidity issues and ultimately may not be able to fulfil the terms of their payment obligations to Fliway. If Fliway does not manage its credit risk across its customer base adequately, or if a large number of customers had financial difficulties at the same time, Fliway's losses could increase above normal levels and its financial performance could be adversely affected. A worsening of economic conditions would also mean that bad debts generally could increase.

## 8.19 Other risks

In addition to the more specific risks referred to above, Fliway faces the usual risks that arise in the normal course of operating any business, such as:

- fraud, business continuity planning and data integrity risk;
- the emergence of a widespread health emergency, epidemic or pandemic which could create economic or financial disruption; and
- the possibility of future claims or litigation.

## 8.20 General market risks

**An active or liquid market may not develop**

Prior to the Offer, there has been no public market for the Shares. There can be no assurance that an active trading market in the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the NZX Main Board at any time. This may increase the volatility of the market price of the Shares and may affect the liquidity of the Shares. It may also affect the market price at which Shareholders are able to sell their Shares.

**The Offer Price may not be indicative of the market price for the Shares**

The Offer Price will have been determined by Fliway and the Selling Shareholders, following consultation with the Arranger and Lead Manager, a number of weeks prior to the Listing and the Offer Price may therefore not be indicative of the market price for the Shares following the Listing. The number of equity offerings taking place in New Zealand and elsewhere at the time of the Offer may also affect demand for the Shares.

**Future sales or issues of Shares may affect the market price**

Following Listing, sales by Shareholders may significantly reduce the market price for the Shares. Any future issue of Shares by Fliway may also significantly dilute your holding and reduce the market price for the Shares.

**The market price of the Shares may be volatile**

Factors such as changes in the New Zealand or international regulatory environment (including for accounting), New Zealand and international equity markets, New Zealand Dollar and foreign currency movements, and the New Zealand and global economy, could cause the market price of the Shares to fluctuate. These fluctuations may adversely affect the market price of the Shares after the Offer.

Consequently, investors may have difficulty selling their Shares or may not be able to sell their Shares at or above the Offer Price. Investors may lose part or all of their investment in the Shares.

**Dividend ranking**

Dividends rank after the payment of interest on Fliway's Banking Facilities. If Fliway does not generate sufficient cash flow to meet certain interest coverage ratios, gearing requirements and other covenants under the Banking Facilities, Shareholders may not receive dividends. If Fliway defaults on the payment of interest on the Banking Facilities, Shareholders may not receive any dividends and may suffer loss of capital due to financial institutions exercising their rights under security held over the assets of Fliway.

**Consequences of insolvency**

Shareholders will not be liable to pay any money to any person as a result of any future insolvency of Fliway. All of Fliway's creditors (secured and unsecured) will rank ahead of Shareholder claims if Fliway is liquidated. After all such creditors have been paid; any remaining assets will be available for distribution between all holders of Shares who will rank equally amongst themselves. There may not be sufficient surplus assets to enable Shareholders to recover all or any of their investment.

## 8.21 Forward-looking statements

This Prospectus contains certain statements that relate to the future, including, in particular, the information set out in Section 9.4 *Prospective financial information*. Forward-looking statements should be read together with the other information in this Prospectus, and the Investment Statement, including the risk factors in this Section 8 *What Are My Risks?* and the assumptions and the sensitivity analysis set out in Section 9.4 *Prospective financial information*.

Such forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Fliway and which may cause the actual results, performance or achievements of the Offer Shares to differ materially from those expressed or implied by such statements.

Each of Fliway, the Selling Shareholders and the Directors disclaim any responsibility to update any such risk factors or publicly announce the results of any revisions to any of the forward-looking statements contained in this Prospectus to reflect developments or events, except to the extent required by the Securities Act, the Securities Regulations, the NZX Main Board Listing Rules, or any other law.

Given these uncertainties, you are cautioned not to place undue reliance on any forward-looking statements contained in this Prospectus. Under no circumstances should you regard the inclusion of forward-looking statements as a representation or warranty by Fliway, its Directors or officers, the Selling Shareholders or any other person referred to in this Prospectus with respect to the achievement of the results set out in any such statement, or that the underlying assumptions used will in fact be realised.

# 9. FINANCIAL INFORMATION

This section contains both historical and prospective financial information for Fliway. This financial information should be read in conjunction with the risk factors set out in Section 8 *What Are My Risks?* and the other information contained in this Prospectus.

Included within this section is:

**9.1 Introduction to Fliway's financial information**

An overview of how Fliway makes money and the main drivers of its financial performance are provided to help readers better understand the financial information provided.

**9.2 Overview of Fliway's financial information**

An overview of the key historical and prospective financial information between the twelve months ended 30 June 2012 (**FY12**) and the six months ending 31 December 2015 (**1H16F**), and commentary on key trends and drivers of historical and prospective financial information. This selected information is provided in addition to the financial information disclosure required under the Securities Regulations to help readers understand Fliway's financial performance.

**9.3 Reconciliation of non-GAAP financial information**

A reconciliation of the Pro Forma profitability to the financial statements and PFI.

**9.4 Prospective financial information**

PFI for the year ending 30 June 2015 (**FY15F**) and the six months ending 31 December 2015 (**1H16F**) comprising:

- prospective consolidated statements of comprehensive income;
- prospective consolidated statements of changes in equity;
- prospective consolidated statements of financial position;
- prospective consolidated statements of cash flows;
- a description of the general and specific assumptions on which the PFI has been prepared; and
- an analysis of the sensitivities of the PFI to changes in key assumptions.

**9.5 Statutory Auditor's report**

**9.6 Investigating Accountant's report**

**Appendix 1: Summary Historical Financial Statements**

**Appendix 2: Audited Financial Statements for the year ended 30 June 2014**

**Appendix 3: Unaudited Interim Financial Statements for the six month period ended 31 December 2014**

## 9.1 Introduction to Fliway's financial information

This Prospectus contains a detailed description and analysis of Fliway's industry (see Section 5 *Industry Overview*) and business (see Section 6 *Business Description*). You are strongly encouraged to read those sections in detail, and also Section 8 *What Are My Risks?.*

Certain information included in this section (including EBITDA, Pro Forma EBITDA, EBIT and Pro Forma EBIT) is non-GAAP financial information. It also includes Pro Forma financial information and profit measures other than net profit for the financial year as reported in the statutory financial statements. The statutory financial statements are prepared in accordance with generally accepted accounting practice in New Zealand (**NZ GAAP**) and comply with New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**) as appropriate for profit oriented entities that qualify for and apply differential reporting. The financial statements for the year ended 30 June 2014 also comply with full IFRS. You can find an explanation as to why Fliway uses these measures of financial performance in Section 9.2 *Overview of Fliway's financial information* under the heading "Explanation of non-GAAP financial information" and a reconciliation of statutory net profit to Pro Forma EBIT and EBITDA in Section 9.3 *Reconciliation of non-GAAP financial information*.

**A summary of how Fliway makes money**

The following provides a simplified overview of how Fliway makes money as an introduction to assist in reading the detail in the rest of this section.

Fliway's core business is in the transport and logistics sector of the New Zealand freight industry. Its activities include transporting and warehousing freight in New Zealand and co-ordinating the movement of freight internationally, including arranging customs clearance and associated brokerage payments.

Fliway derives revenue from the movement and storage of freight in the following areas:

- **Domestic freight transport and warehousing and logistics**
    - **Domestic freight transport:**

      Fliway owns a fleet of trucks, vans and other vehicles that are used to provide a national freight pick-up and delivery service. The overall fleet is a combination of three vehicle types:

        - Line-Haul fleet, which moves freight overnight between Fliway's depots for delivery the next day;
        - regional and Metro fleet, which are smaller trucks that pick-up and deliver freight to and from the customer and Fliway's depots; and
        - delivery vans that are used for the express package pick-up and delivery services that Fliway provides, alongside the Metro fleet.

      Freight is delivered on a set timetable which involves the co-ordination of Fliway's Line-Haul and depot network and regional and Metro fleet. This "hub and spoke" model provides national capability, which is delivered through Fliway's 11 branches.

    - **Warehousing and Logistics:**

      Fliway has approximately 27,750 square metres of warehousing capacity across five locations which is used to store customers' inventory. Revenue is earned through charges for storage and related activities such as container unloading, receipt of inwards goods, inventory management, order picking and product despatch. Storage revenues are generally earned based on volume stored, but can also be based on a customer's requirement for a set footprint area in the warehouse and / or dedicated rack space or specialised areas. Fliway also provides value added services involving Fliway undertaking tasks in addition to warehousing for its customers.

- **International Freight Forwarding**

  Fliway arranges services associated with the end-to-end international movement of customers' freight. These services can include arranging:

  - services at origin, such as picking the freight up;
  - the air or sea movement of the freight; and
  - destination services including the clearing of customs and satisfaction of any border clearance requirements and the delivery of the freight to the required destination.

  This freight may be being imported or exported. However, Fliway also arranges international freight that does not transit through New Zealand (referred to as "cross-trade freight forwarding").

- **International express small package**

  Fliway has a 50/50 joint venture in an international express small package business, UPS-Fliway. UPS-Fliway provides door-to-door pick-up, air freight and express delivery of small packages globally. Fliway receives dividends from UPS-Fliway in its capacity as a 50% shareholder. In addition to dividends, UPS-Fliway is one of Fliway's customers and Fliway earns revenue for providing services to UPS-Fliway, such as customs clearance and picking up and delivering express small packages.

**Main drivers of Fliway's financial performance**

The following factors can have a significant impact on Fliway's financial performance and net cash flows, but are not an exhaustive list of all relevant factors. This should be read in conjunction with "Trends in revenue, Pro Forma EBITDA and statutory net profit" later in this section as well as Section 8 *What Are My Risks?.*

- **Demand for Fliway's customers' products**

  Fliway has a diverse range of customers and the revenue it receives is not strongly correlated to any single data point. The freight industry is typically influenced by movements in GDP, although while GDP is indirectly relevant, Fliway's revenue is primarily related to the trading performance of its customers.

  Fliway considers that it has points of difference that are attractive to a range of New Zealand customers. Key sectors Fliway has exposure to include: commercial refrigeration; consumer electronics; home appliances; consumer transaction technologies; medical imaging; and copiers and printers. As a result, Fliway's revenue is indirectly linked to the performance of these sectors.

  In the international Freight Forwarding business, Fliway has broad exposure to New Zealand's range of importers and exporters. Given the diverse customer range, there are a number of factors which drive demand for customers' products. Examples of these factors include exchange rates, economic growth and consumer confidence.

- **Capacity utilisation**

  An important driver of Fliway's financial performance in its Domestic division is the utilisation of available capacity.

  Fliway is focused on efficiently managing capacity within the Transport business unit by endeavouring to have the right size of fleet on any particular run, by targeting freight services into routes that have excess capacity, and by contracting short term capacity cost effectively if required. However, under or over utilisation of the owned capacity may result in reduced profitability.

  Management of capacity is also important in Fliway's Logistics business unit where it endeavours to balance warehousing space with customer demand. Customer inventory levels can be dynamic. If inventory levels in a warehouse are less than that warehouse's capacity, it is under-utilised and Fliway would be incurring costs associated with a larger warehouse than demand warrants. Similarly, if demand exceeds a warehouse's capacity, Fliway would need to contract overflow storage, which is often at premium short term rental rates.

- **Management of labour resource**

  Fliway's single largest cost is salaries and wages associated with its workforce. Fliway endeavours to allocate labour efficiently against customer demand, service delivery requirements and, where required, comply with all relevant regulations.

- **Fleet**

  Fliway operates an extensive fleet of vehicles. Fliway incurs costs associated with these vehicles being maintained and operated to ensure its network is functioning at all times. These costs are monitored and managed daily.

  Fliway has adopted a two-tiered approach to fleet management:

  - the trucks involved in the Line-Haul network are largely operated under a "cents per kilometre" maintenance contract with the truck vendor to ensure they have limited downtime and their maintenance costs are highly predictable; and
  - the regional and Metro fleet comprises a combination of different size trucks and vans, the maintenance of which is managed locally by branch managers. Fliway's reliance on any one of its vehicles in the regional and Metro fleet is significantly lower than for vehicles utilised in the Line-Haul network.

## 9.2 Overview of Fliway's financial information

Presented in this section is certain historical and prospective financial information and a description of non-GAAP financial information used in this Prospectus. This is provided as an introductory overview, in addition to the financial information disclosure required under the Securities Regulations. The financial information is presented in New Zealand Dollars and is rounded to the nearest thousand (unless stated otherwise), which may result in some minor discrepancies between the sum of components and totals within tables, and also in certain percentage calculations. If you do not understand the information in this section, you should consult a financial adviser.

**Financial information presented**

There are four different types of financial information presented in this Prospectus:

- **Statutory historical financial information** as reported in Fliway's financial statements.

- **Pro Forma historical financial information** adjusts the statutory historical financial results to reflect the additional costs associated with Fliway being a publicly listed company, ongoing management remuneration arrangements and the spread of a management bonus paid in FY13 over the period to which it related (FY09 to FY13).

- **Statutory prospective financial information** includes the forecast results presented on the same basis as they will be reported under NZ GAAP in the future.

- **Pro Forma prospective financial information** adjusts the statutory prospective financial results to reflect additional costs associated with Fliway being a publicly listed company, ongoing management remuneration arrangements and to remove the costs associated with the Offer process.

In addition, forecast Pro Forma profitability for the 12 month period ending 31 December 2015 (**12M Dec 15F**) is provided as additional information. This information represents the Pro Forma prospective financial information for the six months ending 31 December 2015 (**1H16F**) and the six months ending 30 June 2015, which has been extracted from the prospective financial information for the 12 months ending 30 June 2015.

The Pro Forma prospective financial information for the 12 months ending 31 December 2015 has been provided as additional information to show the readers the 1H16F six month period as part of a full 12 calendar month period. This additional disclosure will enable readers to better compare the period ending 31 December 2015 with the Pro Forma historical financial information presented for FY12 to FY14 and the Pro Forma prospective financial information for FY15F.

**Overview of financial information**

The following non-GAAP financial information represents historical and prospective financial information that has been adjusted for specific items to assist potential investors with comparing profitability on a consistent basis. It is provided in addition to the statutory information required for the PFI set out in Section 9.4 *Prospective financial information* and the summary historical financial information set out in Appendix 1.

This selected information is provided in addition to the financial information disclosure required under the Securities Regulations to help readers understand the drivers of financial performance. Set out in Section 9.3 *Reconciliation of non-GAAP financial information* is a reconciliation of non-GAAP profitability to statutory historical and prospective financial information, with a description of the various adjustments following.

**PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

| $'000 | FY12 12 months ended 30 June 2012 | FY13 12 months ended 30 June 2013 | FY14 12 months ended 30 June 2014 | FY15F 12 months ending 30 June 2015 | 1H16F 6 months ending 31 December 2015 | 12M Dec 15F 12 months ending 31 December 2015 |
|---|---|---|---|---|---|---|
| **Total operating revenue** | **73,197** | **74,391** | **81,511** | **85,265** | **44,749** | **85,642** |
| Disbursement costs | (18,567) | (19,121) | (22,490) | (23,013) | (12,233) | (23,344) |
| Freight costs | (4,500) | (4,562) | (3,781) | (4,843) | (2,382) | (4,455) |
| Operating and leasing charges | (6,340) | (6,401) | (6,717) | (7,054) | (3,368) | (6,795) |
| Personnel costs | (24,464) | (24,343) | (27,577) | (29,093) | (15,193) | (29,498) |
| Vehicle expenses | (6,669) | (6,732) | (7,099) | (6,893) | (3,492) | (6,842) |
| Other operating expenses | (6,329) | (7,215) | (6,841) | (7,092) | (3,264) | (6,502) |
| Other income | 19 | - | - | - | - | - |
| **Operating profit** | **6,347** | **6,017** | **7,006** | **7,276** | **4,815** | **8,207** |
| Attributed share of UPS-Fliway EBITDA (50%) | 1,093 | 1,348 | 1,282 | 1,416 | 726 | 1,306 |
| **Pro Forma EBITDA** | **7,439** | **7,366** | **8,289** | **8,692** | **5,541** | **9,514** |
| Depreciation - Fliway | (1,366) | (1,198) | (1,249) | (1,839) | (1,066) | (2,130) |
| Amortisation - Fliway | (90) | (104) | (196) | (216) | (133) | (253) |
| Depreciation - UPS-Fliway | (8) | (7) | (9) | (17) | (12) | (24) |
| **Pro Forma EBIT** | **5,975** | **6,057** | **6,835** | **6,620** | **4,329** | **7,107** |
| **Pro Forma NPAT** | **3,560** | **3,614** | **4,426** | **3,921** | **2,865** | **4,546** |

**Notes:**

**Pro Forma financial information:** The Pro Forma financial information should be read in conjunction with the notes and discussion accompanying this section, including the explanation of the Pro Forma adjustments in Section 9.3 *Reconciliation of non-GAAP financial information* and Section 9.4 *Prospective financial information*. Pro Forma adjustments have been allocated to the appropriate categories above.

**12M Dec 15F:** Forecast Pro Forma profitability for the 12 months ending 31 December 2015 (**12M Dec 15F**) is provided as additional information only.

**Disbursement costs:** Customer-specific direct costs associated with transporting freight.

**Freight costs:** General subcontractor costs within the Domestic division when additional capacity or resource is required.

**Operating and leasing charges:** Rent on premises occupied by Fliway and costs associated with the rental and / or lease of vehicles.

**Personnel costs:** Costs associated with employees, with the largest expense relating to salaries. This category includes Pro Forma adjustments in the periods FY12 to 12M Dec 15F in relation to the management long term incentive and ongoing management remuneration arrangements; refer Section 9.3 *Reconciliation of non-GAAP financial information* for further information on this adjustment.

**Vehicle expenses:** Fuel and oil, Road User Charges and vehicle repairs and maintenance costs.

**Other operating expenses:** Claims, administration and IT costs, including Pro Forma adjustments for incremental public company costs in FY12 to 12M Dec 15F as well as a Pro Forma adjustment for the listing costs incurred in FY15F and 12M Dec 15F; refer Section 9.3 *Reconciliation of non-GAAP financial information* for further information on these adjustments.

**Attributed share of UPS-Fliway EBITDA:** 50% share of the EBITDA generated by UPS-Fliway.

**Depreciation and amortisation:** Depreciation on vehicles, plant and equipment, amortisation of computer software, and attributed depreciation from UPS-Fliway (50%).

## Explanation of non-GAAP financial information

Fliway's financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS and other applicable Financial Reporting Standards as appropriate for profit oriented entities that qualify for and apply differential reporting. The financial statements for the year ended 30 June 2014 also comply with full IFRS.

Fliway monitors its profitability using the non-GAAP financial measures of EBIT and EBITDA. The use of EBIT removes the effects of the Fliway Group's capital structure and tax position and the impact of certain non-cash items (fair value movements in financial instruments and other gains or losses on the sale of assets). The use of EBITDA also further removes the effect of depreciation and amortisation.

A reconciliation between EBIT, EBITDA and NPAT is presented in Section 9.3 *Reconciliation of non-GAAP financial information.* The measures are not defined by NZ GAAP, IFRS, or any other body of accounting standards and therefore Fliway's calculation of these measures may differ from the similarly titled measures presented by other companies. These measures are intended to supplement the NZ GAAP measures presented in Fliway's financial information. They should not be considered in isolation and are not a substitute for NZ GAAP measures.

Pro Forma EBITDA and Pro Forma EBIT are non-GAAP profit measures which reflect a number of historical and prospective Pro Forma adjustments (see Section 9.3 *Reconciliation of non-GAAP financial information*).

Fliway uses EBITDA to evaluate the operating performance of the business without the impact of depreciation, amortisation, capital structure and the tax position. Fliway also uses EBIT to evaluate the operating performance over time without the impact of the capital structure and Fliway's tax position.

Fliway considers that it is common practice to evaluate profitability based on both EBITDA and EBIT which allow for a better comparison of operating performance with that of other companies in comparison to NZ GAAP measures, although caution should be exercised as other companies may calculate EBITDA and EBIT differently.

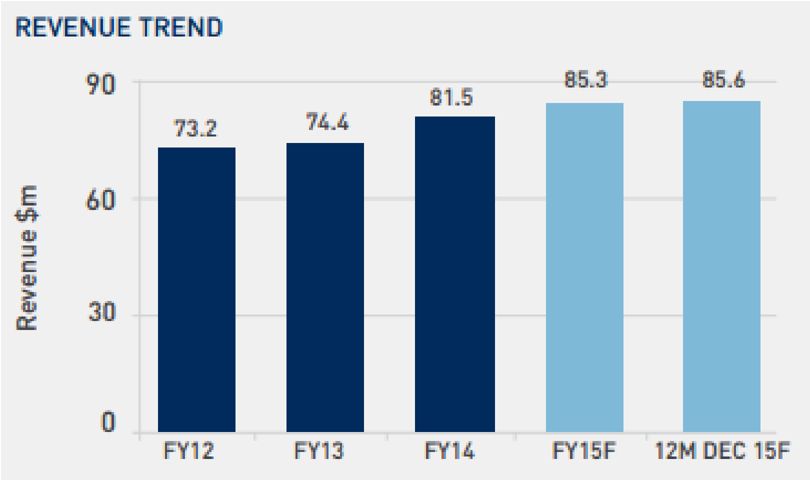
In addition, EBIT and EBITDA also include the attributed EBIT or EBITDA from Fliway's 50% interest in UPS-Fliway as set out below.

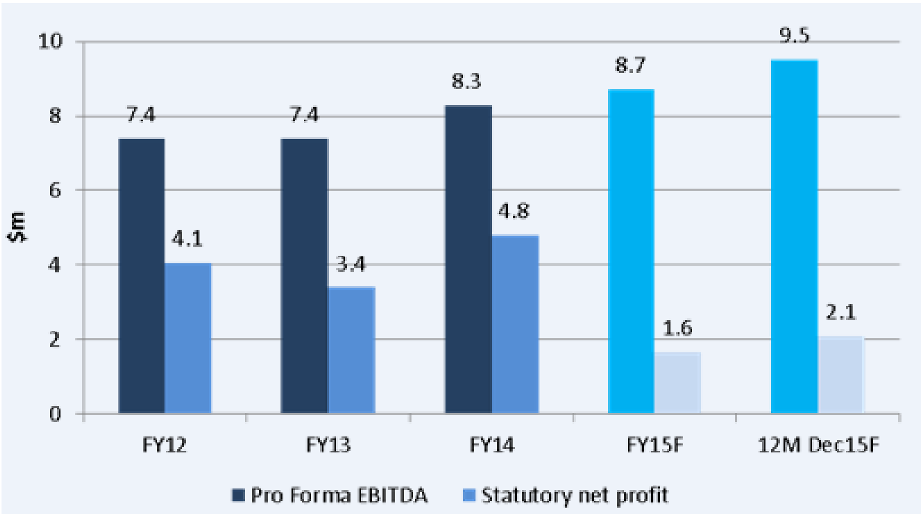
**UPS-FLIWAY**

| $'000 | FY12<br>12 months ended 30 June 2012 | FY13<br>12 months ended 30 June 2013 | FY14<br>12 months ended 30 June 2014 | FY15F<br>12 months ending 30 June 2015 | 1H16F<br>6 months ending 31 December 2015 | 12M Dec 15F<br>12 months ending 31 December 2015 |
|---|---|---|---|---|---|---|
| **Attributable EBITDA (50%)** | 1,093 | 1,348 | 1,282 | 1,416 | 726 | 1,306 |
| Depreciation and amortisation (50%) | (8) | (7) | (9) | (17) | (12) | (24) |
| Interest (50%) | 6 | 11 | 11 | 11 | 5 | 10 |
| Tax (50%) | (301) | (379) | (359) | (397) | (203) | (366) |
| **Attributable NPAT (50%)** | **791** | **974** | **925** | **1,013** | **515** | **926** |
| Dividend received (50%) | 800 | 750 | 900 | 900 | 450 | 900 |

**Trends in revenue, Pro Forma EBITDA and statutory net profit**

The charts below summarise the movements in revenue, statutory net profit and Pro Forma EBITDA over FY12, FY13 and FY14, the PFI for FY15F and additional forecast information relating to the twelve month period ending 31 December 2015.




**Overview of historical revenue and Pro Forma EBITDA for FY12**

In FY12, Fliway experienced growth, particularly in the International division, with revenue recovering to pre-Global Financial Crisis levels. Revenue growth was supplemented by a focus on warehouse profitability in the Logistics business unit and strong earnings growth from UPS-Fliway. The key factors that affected FY12 Revenue and Pro Forma EBITDA included:

- achieving revenue growth in the International division from growth within its existing customer base combined with the full year effect of new customers acquired in FY11;
- focussing on warehouse profitability in the Logistics business unit during a period of stable revenue generation, with modest growth from existing customers in addition to increased demand in spare parts logistics; and
- the full year impact of outsourcing IT infrastructure in FY11, which resulted in additional Head Office costs.

**Overview of historical revenue and Pro Forma EBITDA for FY13 compared to FY12**

In FY13, revenue increased by $1.2 million (1.6%), when compared with FY12. Pro Forma EBITDA decreased by $0.1 million (1%). The key factors that affected the FY13 Revenue and Pro Forma EBITDA results included:

- revenue increased and EBITDA margin percentage declined as a result of an increase in Road User Charges of $0.5 million ($0.8 million for a full 12 month period) which Fliway passed through to customers;
- the performance of Fliway's Christchurch depot was adversely impacted by the post-earthquake and rebuild environment. Impacts included the challenging labour market and ongoing roading disruptions; and
- following a strategic review, a Christchurch warehouse was closed in December 2012, resulting in a number of non-core customers leaving the business. The remaining customers from that warehouse migrated to Fliway's other Christchurch warehouse. While one-off costs were incurred in closing the warehouse and shifting inventory, the closure resulted in cost efficiencies which improved profitability in subsequent financial periods.

**Overview of historical revenue and Pro Forma EBITDA for FY14 compared to FY13**

In FY14, revenue increased by $7.1 million (9.6%), when compared with FY13. Pro Forma EBITDA increased by $0.9 million (12.5%). The key factors that affected the FY14 Revenue and Pro Forma EBITDA results included:

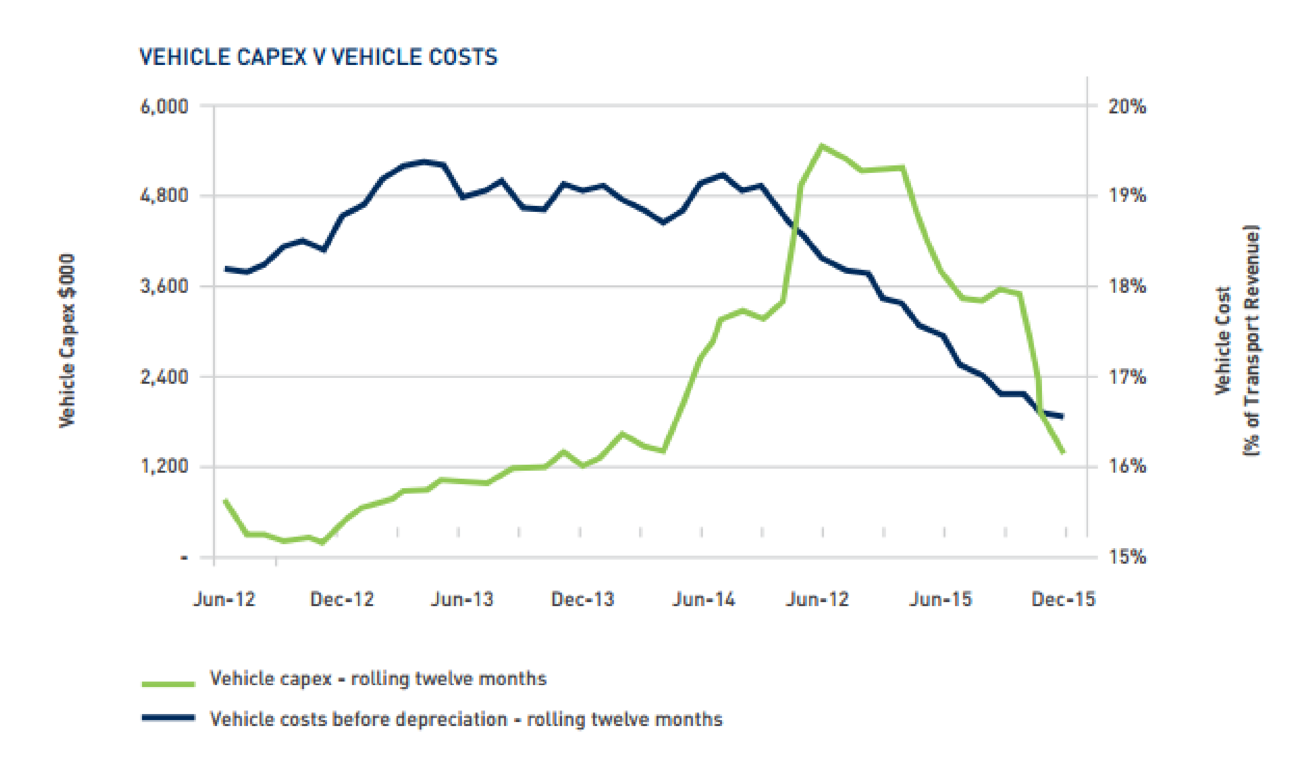
- growth from Fliway's existing customer base together with the acquisition of new customers resulted in the Domestic division's revenue increasing by $4.0 million (8.2%) and the International division's revenue increasing by $3.3 million (13.1%);
- increases in revenue in the Logistics business unit which were partially offset by costs associated with moving inventory into a temporary overflow warehouse in Auckland, and again six months later to an additional newly leased site in Auckland;
- a strategy designed to strengthen Fliway's operational management personnel and increase the business development resources resulted in staff costs increasing across all divisions;
- a strategic review was conducted in FY14 which identified the need for an expansion of the IT function within Head Office. This investment increased IT resources and was designed to enable Fliway to offer IT functionality that it considered was at the forefront of the New Zealand transport and logistics sector. This resulted in a $0.5 million cost increase; and
- Fliway's net capital expenditure increased in FY14 by 26% to $3.4 million in comparison to FY13 as it upgraded its fleet due for replacement, with new equipment built to the limit of new HPMV regulations. Although the capital expense was incurred in FY14, the vehicles were not delivered until June and November 2014, meaning the payback is expected to commence being generated in FY15F.

**Overview of prospective revenue and Pro Forma EBITDA for FY15F and 1H16F compared with FY14 and 1H15 respectively**

In FY15F, revenue is forecast to increase by $3.8 million (4.6%), when compared with FY14. Pro Forma EBITDA is forecast to increase by $0.4 million (4.9%). In 1H16F, revenue is forecast to increase by $0.4 million (0.9%), when compared with 1H15. Pro Forma EBITDA is expected to increase by $0.8 million (17.4%). The key factors that are forecast to affect the FY15F and 1H16F Revenue and Pro Forma EBITDA results include:

- demand is forecast to be consistent with FY14 and 1H15, except for general or contractual rate increases implemented in 1H15, and the annualisation of revenue generated from new customers acquired part-way through FY14 or in 1H15. Route losses or volume reductions have been factored in based on historical experience and discussions held with specific customers;

- lower transport operational costs are forecast as a result of the capital expenditure invested by Fliway in FY14 and 1H15 on new HPMV trucks and trailers. The new trucks and trailers were delivered in June and November 2014, and as a result, no cost reductions were achieved in FY14. However, the lower cost operating model has now been established and is assumed to operate for FY15F and 1H16F; and
- capital expenditure for FY15F is expected to be $4.4 million, the majority ($4.2 million) of which will be spent before the end of March 2015.




**Overview of trends in statutory net profit**

Trends in Net Profit are influenced by the movements in Pro Forma EBITDA discussed above, a range of non-cash expenses, items one-off in nature, and interest and tax costs. The more significant differences are explained below:

- depreciation is forecast to increase by $0.6 million from $1.5 million to $2.1 million in FY15F as a result of the fleet capital expenditure invested late in FY14 and 1H15;
- Fliway has two derivative contracts in place associated with its current Banking Facilities. A revaluation loss of approximately $0.2 million was incurred in FY13, a $0.1 million gain in FY14, and a subsequent $0.2 million revaluation loss in 1H15. No movements have been assumed in the forecast period; and
- net financing costs are forecast to increase from $0.7 million to $0.9 million between FY14 and FY15F as a result of an increase in the average debt balance during the year.

## 9.3 Reconciliation of non-GAAP financial information

EBIT and EBITDA are key metrics which management monitors to operate the business. Set out below is a reconciliation of these non-GAAP profitability measures to historical and prospective financial information together with a description of the various Pro Forma adjustments following the table.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

| $'000 | Notes/Pro Forma adjustmen | FY12 12 months ended 30 June 2012 | FY13 12 months ended 30 June 2013 | FY14 12 months ended 30 June 2014 | FY15F 12 months ending 30 June | 1H16F 6 months ending 31 December |
|---|---|---|---|---|---|---|
| **Reported NPAT** | | **4,065** | **3,397** | **4,786** | **1,646** | **2,865** |
| **Adjust for:** | | | | | | |
| Share of UPS-Fliway net surplus (post tax 50%) | | (791) | (974) | (925) | (1,013) | (515) |
| Attributed share of UPS-Fliway EBITDA (50%) | | 1,093 | 1,348 | 1,282 | 1,416 | 726 |
| Net (gain)/loss on fair value of derivative instruments | | (76) | 152 | (89) | 182 | 23 |
| Net (gain)/loss on sale of fixed assets | | 69 | 56 | 30 | 29 | - |
| Net financing costs | | 1,011 | 794 | 741 | 907 | 329 |
| Taxation expense | | 1,313 | 989 | 1,520 | 1,285 | 914 |
| **EBIT** | | **6,684** | **5,763** | **7,344** | **4,453** | **4,342** |
| Depreciation and amortisation | | 1,456 | 1,302 | 1,445 | 2,055 | 1,199 |
| **EBITDA** | | **8,140** | **7,065** | **8,789** | **6,507** | **5,541** |
| **Less:** | | | | | | |
| Incremental public company costs | 1 | (420) | (420) | (420) | (280) | - |
| Management remuneration | 3 | (80) | (80) | (80) | (40) | - |
| Management LTI | 2 | (200) | 801 | - | - | - |
| **Add:** | | | | | | |
| Listing costs | 4 | - | - | - | 2,505 | - |
| **Total adjustments** | | **(700)** | **301** | **(500)** | **2,185** | **-** |
| **Pro Forma EBITDA** | | **7,439** | **7,366** | **8,289** | **8,692** | **5,541** |
| Depreciation - Fliway | | (1,366) | (1,198) | (1,250) | (1,839) | (1,067) |
| Amortisation - Fliway | | (90) | (104) | (195) | (216) | (133) |
| Depreciation - UPS-Fliway (50%) | | (8) | (7) | (9) | (17) | (12) |
| **Pro Forma EBIT** | | **5,975** | **6,057** | **6,835** | **6,620** | **4,329** |
| Attributed share of UPS-Fliway EBIT (50%) | | (1,085) | (1,342) | (1,273) | (1,399) | (714) |
| Share of UPS-Fliway net surplus (post tax 50%) | | 791 | 974 | 925 | 1,013 | 515 |
| Net gain/(loss) on fair value of derivative instruments | | 76 | (152) | 89 | (182) | (23) |
| Net gain/(loss) on sale of fixed assets | | (69) | (56) | (30) | (29) | - |
| Net financing costs | | (1,011) | (794) | (741) | (907) | (329) |
| **Pro Forma NPBT** | | **4,677** | **4,687** | **5,806** | **5,116** | **3,778** |
| Pro Forma taxation expense | 5 | (1,117) | (1,073) | (1,380) | (1,195) | (914) |
| **Pro Forma NPAT** | | **3,560** | **3,614** | **4,426** | **3,921** | **2,865** |

### Explanations of Pro Forma adjustments

1. **Incremental public company costs**: An adjustment has been made to include an estimate of the incremental annual costs that will be incurred as a publicly listed company. These incremental costs include Director remuneration, additional audit and tax costs, listing fees, share registry fees, Directors' and officers' insurance premiums, investor relations, company secretarial costs, as well as annual general meeting and annual report costs. The Pro Forma adjustment assumes an effective Listing Date of 9 April 2015.

2. **Management long term incentive**: A management long term incentive was paid in FY13 that related to the four year period September 2008 to August 2012. The adjustment spreads the payment in FY13 over the four year period to which it relates.

3. **Management remuneration:** An $80,000 per annum remuneration increase has been factored into the PFI from 1 January 2015 onwards to reflect a market-based remuneration structure for the senior management team. This increase has been normalised in FY12, FY13, FY14 and a six month pro-rated adjustment was applied to FY15F (representing July to December 2014).

4. **Listing costs**: Total expenses of the Offer are estimated at $3.4 million, of which $0.5 million is brokerage on the Existing Shares sold by the Selling Shareholders which will be paid or reimbursed by

the Selling Shareholders, $2.5 million is non-tax deductible and has been expensed in the statutory forecast results. The remaining $0.4 million is directly attributable to the issue of Shares and will be offset against equity raised in the Offer. For the purposes of the PFI, the total expenses of the Offer have been forecast based on the assumption that the Offer Price is set at the top of the Indicative Price Range and the Selling Shareholders retaining a stake of 30%.

5. **Taxation expense:** the Pro Forma tax expense represents the tax expense adjusted for the impact of the Pro Forma adjustments. Listing Costs of $2,505,000 were treated as non-tax deductible and therefore do not impact the tax calculation.

## 9.4 Prospective financial information

The prospective financial statements included in this section (including information required by clause 11(1)(c) of Schedule 1 of the Securities Regulations) are the consolidated group position of Fliway Group Limited and subsidiaries and include:

- the basis of preparation for the PFI for Fliway;
- prospective consolidated statements of comprehensive income;
- prospective consolidated statements of financial position;
- prospective consolidated statements of changes in equity;
- prospective consolidated statements of cash flows; and
- a description of the general and specific assumptions that underpin the PFI contained in this Prospectus, including the significant accounting policies applied.

**Basis of preparation**

The prospective financial statements, including the assumptions on which they are based, are the responsibility of, and have been prepared by management and approved by the Directors and are based on events and conditions existing as at the date of this Prospectus. The Directors have given due care and attention to the preparation of the prospective financial statements, including the underlying assumptions set out under the heading “Notes to the prospective financial information” below. These assumptions should be read in conjunction with the sensitivity analysis further below, the risk factors set out in Section 8 *What Are My Risks*? and Fliway’s accounting policies, which are set out in Appendix 2 *Audited financial statements for the year ended 30 June 2014.*

Forecasts by their nature are inherently uncertain. They are predictions of future events which cannot be assured. They involve risks and uncertainties, many of which are beyond the control of Fliway. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Various risk factors and the management of those risks may influence the success of Fliway’s business. Accordingly, actual results are likely to vary from the PFI, and these variations may be significantly more or less favourable to Fliway. Therefore, the Directors cannot and do not, guarantee the achievement of these financial forecasts and investors are cautioned not to place undue reliance on the PFI.

The prospective financial statements were prepared by management and authorised by the Directors as at 5 March 2015 for use in this Prospectus and not for any other purpose. The Pro Forma PFI for the 12 months ending 30 June 2015 comprises six months of actual trading results for the Fliway Group (July to December 2014) and six months forecast operating results for Fliway. While the forecast does not include the actual trading results for January 2015, the results for January 2015 are known and were consistent with the forecast for the month. The prospective statements of comprehensive income, prospective statements of changes in equity and prospective statements of cash flows cover the 12 month period from 1 July 2014 to 30 June 2015 and the six month period from 1 July 2015 to 31 December 2015.

The prospective statements of financial position are presented as at 30 June 2015 and 31 December 2015. The period from 1 July 2014 to 31 December 2015 is referred to as the Prospective Period.

There is no present intention to update the prospective financial statements or to publish prospective financial statements in the future. Investors must consider the assumptions on which the prospective financial statements have been prepared and the sensitivity analysis in order to fully understand the prospective financial statements. Fliway will report actual financial results against the prospective financial statements in accordance with NZ GAAP in the 30 June 2015 financial statements and 31 December 2015 interim financial statements, and will provide that information to Shareholders on request under section 54B of the Securities Act and regulation 44 of the Securities Regulations.

**PROSPECTIVE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| $'000 | FY15F<br>12 months ending 30 June 2015 | 1H16F<br>6 months ending 31 December 2015 |
|---|---|---|
| Revenue from operating activities | 85,265 | 44,749 |
| **Total operating revenue** | **85,265** | **44,749** |
| Disbursement costs | (23,013) | (12,233) |
| Freight costs | (4,843) | (2,382) |
| Depreciation and amortisation | (2,055) | (1,199) |
| Operating and leasing charges | (7,054) | (3,368) |
| Share of UPS-Fliway net surplus (50%) | 1,013 | 515 |
| Personnel costs | (29,053) | (15,193) |
| Vehicle expenses | (6,893) | (3,492) |
| Net loss on fair value of derivative instruments | (182) | (23) |
| Other operating expenses | (9,345) | (3,264) |
| **Operating profit before financing costs** | **3,838** | **4,109** |
| Interest received | 69 | - |
| Interest paid | (976) | (329) |
| **Net financing costs** | **(907)** | **(329)** |
| **Profit before taxation** | **2,931** | **3,779** |
| Taxation expense | (1,285) | (914) |
| **Net profit and total comprehensive income for the period** | **1,646** | **2,865** |

**Note:**

The financial information presented for the periods ending 30 June 2015 and 31 December 2015 represents statutory prospective financial information, and therefore the balances do not include any Pro Forma adjustments.

PROSPECTIVE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| $'000 | As at 30 June 2015 | As at 31 December 2015 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash at bank and on hand | 1,773 | 3,607 |
| Accounts receivable | 11,216 | 11,356 |
| Related party receivables | 520 | 520 |
| Prepaid expenses and other current assets | 421 | 721 |
| Derivative financial instruments | - | - |
| **Total current assets** | **13,930** | **16,204** |
| **Non-current assets** | | |
| Deferred taxation asset | 379 | 379 |
| Property, plant and equipment | 10,133 | 10,164 |
| Intangibles | 353 | 323 |
| Investment in UPS-Fliway | 1,574 | 1,639 |
| Goodwill | 23,046 | 23,046 |
| **Total non-current assets** | **35,484** | **35,551** |
| **Total assets** | **49,414** | **51,755** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | 5,478 | 5,611 |
| Provisions | 480 | 480 |
| Employee benefits | 1,078 | 1,208 |
| Related party payables | 40 | 40 |
| Taxation payable | 388 | 464 |
| Derivative financial instruments | 108 | 108 |
| **Total current liabilities** | **7,573** | **7,911** |
| **Non-current liabilities** | | |
| Interest-bearing loans | 12,500 | 12,500 |
| **Total non-current liabilities** | **12,500** | **12,500** |
| **Total liabilities** | **20,073** | **20,411** |
| **Net assets** | **29,341** | **31,344** |
| **Equity** | | |
| Issued capital | 8,904 | 8,904 |
| Retained earnings | 20,437 | 22,440 |
| **Total equity** | **29,341** | **31,344** |

**Notes:**

The financial information presented as at 30 June 2015 and 31 December 2015 represents statutory prospective financial information, and therefore the balances do not include any Pro Forma adjustments.

Goodwill primarily relates to the acquisition of Fliway by The D & G Hawkesby Trust in 2006, in addition to goodwill recognised on the acquisition of DTC Holdings Transport in 2007.

## PROSPECTIVE CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| $'000 | Issued capital | Retained earnings | Total |
|---|---|---|---|
| Balance as at 1 July 2014 | 5,000 | 18,790 | 23,790 |
| Repayment of redeemable preference shares | (5,000) | - | (5,000) |
| Equity raised from IPO | 9,300 | - | 9,300 |
| Issue costs associated with new shares | (396) | - | (396) |
| Total comprehensive income | - | 1,646 | 1,646 |
| Dividends paid | - | - | - |
| **Balance as at 30 June 2015** | **8,904** | **20,436** | **29,341** |
| | | | |
| Balance as at 1 July 2015 | 8,904 | 20,436 | 29,341 |
| Total comprehensive income | - | 2,865 | 2,865 |
| Dividends paid | - | (863) | (863) |
| **Balance as at 31 December 2015** | **8,904** | **22,439** | **31,344** |

**Notes:**

The financial information presented for the periods ending 30 June 2015 and 31 December 2015 represents statutory prospective financial information, and therefore the balances do not include any Pro Forma adjustments.

Fliway redeemed 5 million redeemable preference shares on 6 October 2014. Each redeemable preference share was redeemed for its issue price of $1.

## PROSPECTIVE CONSOLIDATED STATEMENTS OF CASH FLOWS

| $'000 | FY15F<br>12 months ending 30 June 2015 | 1H16F<br>6 months ending 31 December 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | 86,751 | 45,566 |
| Interest received | 69 | - |
| Receipts from UPS-Fliway | 5,894 | 2,958 |
| Payments to suppliers and employees | (87,792) | (43,910) |
| Interest paid | (976) | (329) |
| Income taxes paid | (1,272) | (838) |
| **Net cash inflow/(outflow) from operating activities** | **2,675** | **3,447** |
| **Cash flows from investing activities** | | |
| Dividend received from UPS-Fliway | 869 | 450 |
| Payments for property, plant and equipment | (3,996) | (1,200) |
| **Net cash inflow/(outflow) from investing activities** | **(3,128)** | **(750)** |
| **Cash flows from financing activities** | | |
| Dividends paid | - | (863) |
| Repayment of redeemable preference shares | (5,000) | - |
| Equity raised from IPO | 9,300 | - |
| Issue costs associated with new shares | (396) | - |
| Repayment of borrowings | (9,769) | - |
| **Net cash inflow/(outflow) from financing activities** | **(5,865)** | **(863)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(6,318)** | **1,834** |
| Cash and cash equivalents at the beginning of the year | 8,090 | 1,772 |
| **Cash and cash equivalents at end of the year** | **1,773** | **3,607** |

**Note:**

The financial information presented for the periods ending 30 June 2015 and 31 December 2015 represents statutory prospective financial information, and therefore the balances do not include any Pro Forma adjustments.

**Prospective financial performance by segment**

Fliway comprises the following segments:

- Domestic;
- International;
- UPS-Fliway joint venture; and
- Head Office.

The table below sets out the Historical and Prospective revenue, segment profit and EBITDA for Fliway on a segmental basis for FY14, FY15F and 1H16F. Equivalent information for FY12 and FY13 is presented below in this Section 9.4, under the heading "Segmental assumptions".

**FINANCIAL PERFORMANCE BY SEGMENT**

| $'000 | Domestic | International | Joint Venture | Head Office | Inter-Segment | Group |
|---|---|---|---|---|---|---|
| **FY13** | | | | | | |
| Total revenue | 49,031 | 25,573 | - | - | (213) | 74,391 |
| **Segment Profit** | **7,464** | **2,806** | **1,348** | **(3,569)** | **-** | **8,049** |
| **Less:** | | | | | | |
| Depreciation & amortisation | 1,186 | 69 | - | 47 | - | 1,302 |
| Gross up 50% joint venture interest, tax, depreciation | - | - | 374 | - | - | 374 |
| Non-recurring costs | - | - | - | 889 | - | 889 |
| Other | 56 | - | - | 247 | - | 303 |
| **Operating profit before financing costs** | **6,222** | **2,737** | **974** | **(4,752)** | **-** | **5,180** |
| **FY14** | | | | | | |
| Total revenue | 52,806 | 28,918 | - | - | (212) | 81,512 |
| **Segment Profit** | **8,007** | **3,765** | **1,282** | **(4,153)** | **-** | **8,901** |
| **Less:** | | | | | | |
| Depreciation & amortisation | 1,254 | 129 | - | 62 | - | 1,445 |
| Gross up 50% joint venture interest, tax, depreciation | - | - | 357 | - | - | 357 |
| Non-recurring costs | - | - | - | 20 | - | 20 |
| Other | 88 | - | - | (56) | - | 32 |
| **Operating profit before financing costs** | **6,665** | **3,636** | **925** | **(4,179)** | **-** | **7,047** |
| **FY15F** | | | | | | |
| Total revenue | 56,534 | 28,822 | - | - | (91) | 85,265 |
| **Segment Profit** | **7,907** | **3,946** | **1,416** | **(6,762)** | **-** | **6,507** |
| **Less:** | | | | | | |
| Depreciation & amortisation | 1,764 | 121 | - | 170 | - | 2,055 |
| Gross up 50% joint venture interest, tax, depreciation | - | - | 403 | - | - | 403 |
| Other | (39) | - | - | 250 | - | 211 |
| **Operating profit before financing costs** | **6,182** | **3,825** | **1,013** | **(7,182)** | **-** | **3,838** |
| **1H16F** | | | | | | |
| Total revenue | 29,547 | 15,302 | - | - | (100) | 44,749 |
| **Segment Profit** | **5,167** | **2,011** | **726** | **(2,363)** | | **5,541** |
| **Less:** | | | | | | |
| Depreciation & amortisation | 1,021 | 73 | - | 104 | - | 1,199 |
| Gross up 50% joint venture interest, tax, depreciation | - | - | 211 | - | - | 211 |
| Other | - | - | - | 23 | | 23 |
| **Operating profit before financing costs** | **4,146** | **1,938** | **515** | **(2,490)** | **-** | **4,109** |

**Note:**

The UPS-Fliway attributed EBITDA represents Fliway's share based on its 50% interest in UPS-Fliway.

**Notes to the prospective financial information**

The principal assumptions on which the prospective financial statements have been prepared are set out below. These assumptions should be read in conjunction with the risk factors set out in Section 8 *What Are My Risks?* and the sensitivity analysis below. The prospective financial statements comply with FRS-42. The general and specific assumptions to the prospective financial statements are set out below.

**General assumptions**

1. **Economic environment** – there will be no material change in the general economic environment in which Fliway operates or provides its services.

2. **Political, legislative and regulatory environment** – there will be no material change to the political, legal or regulatory environments in which Fliway operates or changes in Road User Charges.

3. **Competitive environment** – there will be no material change in the competitive dynamics of the market in which Fliway operates, including any material change in competitor activity. No new entrants will materially change the competitive environment.

4. **Industry conditions** – there will be no material change in the general industry structure, third party relationships or employee environments.

5. **Key customers and suppliers** – there will be no material loss of key customers or suppliers.

6. **Disruption to operations** – there will be no material disruption to operations, including through natural disasters, marine or industrial accidents, fires or explosions, product supply or quality issues or through normal hazards associated with Fliway's activities (including disruptions to or affecting any of Fliway's key customers).

7. **Operating environment** – there will be no material costs incurred through either industrial or contractual disputes.

8. **Business acquisitions or disposals** – there will be no material business acquisitions or disposals made by Fliway.

9. **Management of Fliway** – no directors, key personnel or consultants will leave Fliway, and management resources will be sufficient for Fliway's requirements.

10. **Taxation** – there will be no material change to the income tax, excise tax or goods and services tax regime in New Zealand, including no change to the corporate tax rate.

**Specific assumptions**

1. **Accounting policies –** It is assumed that Fliway's accounting policies will be the same as the current accounting policies and will remain consistent throughout the period covered by the prospective financial statements. It is also assumed there will be no material change in NZ IFRS or otherwise in NZ GAAP. The Company's existing accounting policies are set out in the historical financial statements for the year ended 30 June 2014 in Appendix 2 *Audited financial statements for the year ended 30 June 2014*, and can also be obtained from the Company.

2. **Offer Proceeds –** As part of this Offer process, additional Shareholder equity will equal $8.9 million, representing the issue of share capital ($9.3 million), offset by the costs relating to the issue of new equity ($0.4 million).

3. **Inflation**

The forecast has been based on an assumption that general inflation will be 2.0% in FY15F and 2.0% per annum in 1H16F. Wages are assumed to increase in line with anticipated inflation.

4. **Segmental assumptions**

**Domestic**

The Domestic segment consists of two business units: Transport, the transport arm of the business, and Logistics, the warehousing business. Each of the business units has been forecast individually based on the assumptions outlined below.

| $'000<br>Domestic | FY13 | FY14 | FY15F | 1H16F |
|---|---|---|---|---|
| Total revenue | 49,031 | 52,806 | 56,534 | 29,547 |
| **Segment Profit** | **7,464** | **8,007** | **7,907** | **5,167** |
| **Operating profit before financing costs** | **6,222** | **6,665** | **6,182** | **4,146** |

***Transport***

- **Revenue:**

  Transport revenue has been forecast based on management's expectations of existing customer demand and new customer acquisitions.

  - Existing customers:

    Demand is assumed to be consistent with FY14 and 1H15, but for general or contractual rate increases implemented in 1H15 and the annualisation of revenue generated from new customers acquired part way through FY14 or in 1H15.

    Specific customer areas or volume reductions have been factored in based on historical experience and discussions held with specific customers.

    Transport revenue has been forecast on the assumption that Fliway retains contracts that are scheduled to expire during FY15F and 1H16F at a rate consistent with historical experiences.

  - New customers:

    Revenue from new customers during FY15F and 1H16F has been estimated based on historical experience and additional business development resource.

- **Operating expenses:**

  - Personnel costs:

    Personnel costs comprise both a fixed and variable component.

    Direct salaries are variable and are assumed to grow in line with revenue.

An increase in fixed personnel costs of $0.4 million reflects the addition of a national key account manager, operations managers and a customer service representative in FY15F, as well as the full year impact of staffing increases implemented part way through FY14.

- Vehicle costs:

  Vehicle costs relate predominantly to fuel and oil, repairs and maintenance, and Road User Charges. Efficiencies have been assumed in vehicle operating costs from the replacement of a portion of the fleet (in June 2014 and November 2014) with new higher capacity Line-Haul trucks.

- Subcontractor costs:

  Due to fluctuating freight volumes, Fliway expects to continue to use subcontracting arrangements. The use of these subcontracting arrangements is forecast to reduce with new increased capacity trucks and trailers.

- Other operating expenses:

  Premises costs are forecast to remain constant based on expected rent reviews in FY15F and 1H16F. Administration and other costs have been forecast to remain relatively consistent with FY14 and 1H15.

***Logistics***

- **Revenue:**

  FY15F and 1H16F revenue is forecast to remain consistent with FY14 and 1H15 on the basis that the Logistics business unit will keep operating at similar levels (i.e., close to full capacity) and that it will not reach the point where additional capacity will be required.

- **Operating expenses:**

  - Personnel expenses:

    Additional Auckland storage requirements, over and above Fliway's available capacity, resulted in the use of a temporary overflow warehouse in FY14. As demand sustained, Fliway entered a new lease for a Mangere, Auckland warehouse at the end of FY14. This resulted in an increase in staffing costs from shifting inventory between warehouses. This is not expected to re-occur in FY15F and as such, personnel costs have been forecast to decline slightly as a percentage of sales.

  - Premises costs:

    A $0.3 million increase in premises costs has been assumed in the forecast period which relates to the lease costs associated with the new Mangere, Auckland warehouse.

  - Other operating expenses:

    Other operating expenses have been forecast to remain consistent with FY14 and 1H15, with variable costs increasing in line with revenue.

### International

The International segment is responsible for the international transport and brokerage services provided for air and sea freight in and out of New Zealand, as well as cross trade arrangements where freight is moved from one foreign destination to another without transiting through New Zealand. The segment has been forecast based on the assumptions outlined below.

| $'000<br>International | FY13 | FY14 | FY15F | 1H16F |
|---|---|---|---|---|
| Total revenue | 25,573 | 28,918 | 28,822 | 15,302 |
| **Segment Profit** | **2,806** | **3,765** | **3,946** | **2,011** |
| **Operating profit before financing costs** | **2,737** | **3,636** | **3,825** | **1,938** |

**Revenue:**

International revenue is forecast to remain broadly consistent (0.3% decline) in FY15F and increase 2.4% to 1H16F as a result of increased sales resources added in FY14 as well as Fliway's expectation that trade volumes will increase.

- **Operating expenses:**

  Variable costs include costs relating to freight, agency, cartage and brokerage. For the most part, International revenue is based on a "cost + margin" model and as such, variable costs are forecast to increase in line with revenue.

  The International division experienced an increase in margins in FY14 as a result of improved sales mix and increased brokerage work. The PFI assumes that margin will remain at the FY14 and 1H15 level over the forecast period, reflecting management's expectation that the favourable mix and strong clearance volumes will remain.

  Overhead costs are relatively fixed in nature and primarily relate to International employees' salaries. They also include costs attributed to premises and other administration expenses which are assumed to remain constant.

  Salaries are forecast based on management's expectation of employee numbers and annual salary increases.

### UPS-Fliway

The financial performance of UPS-Fliway over the PFI period is expected to remain consistent with FY14 and 1H15 with respect to revenue and EBITDA.

| $'000<br>Joint Venture | FY13 | FY14 | FY15F | 1H16F |
|---|---|---|---|---|
| Total revenue | - | - | - | - |
| **Segment Profit** | **1,348** | **1,282** | **1,416** | **726** |
| **Operating profit before financing costs** | **974** | **925** | **1,013** | **515** |

### Head Office

The Head Office provides support to the divisions through the provision of a number of shared services in relation to IT, finance, accounts payable, accounts receivable and payroll. The Head

Office consists of two cost centres; Finance and Administration and IT. Through these cost centres, the Head Office performs a number of key functions to assist the Fliway business segments with their day to day operations.

| $'000<br>Head Office | FY13 | FY14 | FY15F | 1H16F |
|---|---|---|---|---|
| Total revenue | - | - | - | - |
| **Segment Profit** | **(3,569)** | **(4,153)** | **(6,762)** | **(2,363)** |
| **Operating profit before financing costs** | **(4,752)** | **(4,179)** | **(7,182)** | **(2,490)** |

- **Overheads:**

  Overhead costs predominantly relate to salaries for Head Office employees. Salaries are forecast to increase as a result of the full year impact of the expansion of the IT department in FY14 and annual salary increases.

  In addition, FY15 Head Office includes $2.5 million of listing costs. Listing costs have been forecast based on the assumption that the Offer Price is set at the top of the Indicative Price Range and the Selling Shareholders retaining a stake of 30%.

5. **Depreciation**

Depreciation has been forecast based on historical and prospective capital expenditure (refer capital expenditure programme described later in this section), using depreciation rates which reflect the expected useful lives of the assets.

6. **Taxation**

An income tax rate of 28% on taxable profit is assumed for the PFI, being the current corporate tax rate in New Zealand.

7. **Current assets and liabilities**

**CURRENT ASSETS AND LIABILITIES**

| $'000 | As at 30 June 2014 | As at 30 June 2015 | As at 31 December 2015 |
|---|---|---|---|
| Accounts receivable | 10,734 | 11,216 | 11,356 |
| Related party receivables | 492 | 520 | 520 |
| Prepaid expenses and other current assets | 362 | 421 | 721 |
| Accounts payable and accrued expenses | 5,078 | 5,478 | 5,611 |
| Related party payables | 35 | 40 | 40 |
| Provisions | 554 | 480 | 480 |
| **Net working capital** | **5,921** | **6,159** | **6,465** |
| **Average net working capital days** | | | |
| Receivables days | 41 | 41 | 40 |

Net working capital primarily relates to accounts receivable, accounts payable and accrued expenses.

- **Accounts receivable:**

  Relates to trade receivables (net of allowance for doubtful debts). Trade receivables are forecast using a receivables days approach. Receivables days are expected to remain at levels consistent with historical experience.

- **Accounts payable and accrued expenses:**

  Includes trade payables, accruals and any goods and services tax payable. These balances are forecast using a creditor days approach assuming creditor days remain at levels consistent with historical experience.

- **Other net working capital items:**

  Related party receivables relate to amounts owing to Fliway from UPS-Fliway for rent and outgoings. Outgoings are forecast to remain consistent with FY14 and 1H15 levels and rent is forecast to increase in line with contractual rent reviews. Prepayments relate to insurance and ACC, which represent a cost of around $0.6 million per annum. Provisions are forecast to remain consistent with FY14 and 1H15 with the exception of one-off claims expected to be resolved prior to the end of FY15F.

8. **Capital expenditure**

**CAPITAL EXPENDITURE**

| $'000 | FY14<br>12 months ended 30 June 2014 | FY15F<br>12 months ending 30 June 2015 | 1H16F<br>6 months ending 31 December 2015 |
|---|---|---|---|
| **Vehicles** | | | |
| Trucks and vans | 1,459 | 1,708 | 750 |
| Truck & trailer | 1,378 | 2,251 | - |
| **Non-Vehicles** | | | |
| IT | 527 | 317 | 450 |
| Other | 276 | 106 | - |
| **Total capital expenditure** | **3,639** | **4,382** | **1,200** |

**Notes**:

Capital expenditure in the FY14 and FY15F Statement of Cash Flows differs. The difference primarily relates to the timing of payment of capital expenditure.

Capital expenditure for FY15F is expected to be $4.4 million, the majority ($4.2 million) of which is expected to be spent by the end of March 2015. This step-change investment in capital expenditure is over and above current maintenance capex levels and is expected to return to normal levels over the remainder of the Prospective Period.

FY15F capital expenditure primarily relates to fleet, with over half ($2.6 million) of the fleet capital expenditure relating to increased capacity Line-Haul trucks and trailers, and the remainder relating to the replacement of trucks and vans for the Metro fleet.

In addition, capital expenditure of $0.6 million is forecast to be spent on IT, the majority of which relates to an upgrade of a software system occurring over the next 18 - 24 months (total project spend of $1.2 million).

### Fleet upgrade

Following a regulation change in 2010 that increased the maximum truck capacity allowed from $100m^3$ to $150m^3$, Fliway started investing in increased capacity trucks in FY14, where it purchased four $150m^3$ Line-Haul trucks and five trailers which started operating in June 2014.

Fliway purchased a further four $150m^3$ Line-Haul trucks and trailers which were delivered in November 2014 and started operating in December 2014.

Fliway has forecast cost efficiencies from the higher capacity trucks in the form of a reduction in subcontractor costs (as more permanent capacity becomes available), repairs and maintenance costs (as older fleet is replaced by new trucks), as well as labour (as fewer trucks are required) and other costs. This is forecast to be largely offset by an increased depreciation charge.

## 9. Financing

Fliway, Fliway Transport, Fliway Logistics, Fliway International, Fliway Holdings and ANZ Bank New Zealand Limited (**ANZ**) have entered into an agreement for the provision of certain banking facilities (the **Banking Facilities**). Funding to be provided under the Banking Facilities will be utilised to repay existing debt facilities and assist with ongoing working capital requirements and general corporate purposes (including the issue of bank guarantees and letters of credit).

The bank facility is secured by way of a general security interest in favour of ANZ over all present and future property of each Group Company.

The Banking Facilities comprise:

- a $5,000,000 term loan facility (the **New Term Loan Facility**);
- a $12,800,000 term loan facility (the **Existing Term Loan Facility**);
- a $1,500,000 flexible credit facility (the **Flexible Credit Facility**);
- a $300,000 commercial credit card facility (the **Commercial Credit Card Facility**);
- a $1,500,000 BBIR overdraft facility (the **Overdraft Facility**);
- a $1,400,000 trade and supply chain facility (the **Trade and Supply Chain Facility**);
- a $250,000 clean credit card facility (the **Clean Credit Facility**); and
- a $75,000 financial guarantee facility (the **Financial Guarantee Facility**).

The New Term Loan Facility and the Existing Term Loan Facility both mature on 3 November 2017. The Flexible Credit Facility, Commercial Credit Card Facility, the Overdraft Facility and the Clean Credit Facility are all repayable on demand. The Trade and Supply Chain Facility and the Financial Guarantee Facility are reviewable annually.

On Listing, the intention of the business is to have $12.5 million of net debt drawn under the Existing Term Loan Facility.

Amounts drawn under the Banking Facilities are subject to a range of interest rates, being fixed and / or variable interest rates based on the average New Zealand Bank Bill Bid Rate “BKBM”, ANZ’s Corporate Indicator Rate and ANZ’s business bank indicator rate (**BBIR**), in each case plus an applicable margin. Certain fees are payable by the applicable borrower in connection with the Banking Facilities from time to time, including excess fees, line fees, administration fees, establishment fees, issuing fees and renewal fees. The interest forecast to be payable is the sum of the expected interest rate payable on amounts forecast to be drawn down under each of the New

Term Loan Facility, the Existing Term Loan Facility, the Flexible Credit Facility and the Overdraft Facility.

Under the terms of the Banking Facilities, Fliway is obliged (amongst other things) to immediately apply a minimum amount of $2,800,000 to the permanent reduction of Fliway's debt to ANZ if Fliway completes the Offer.

**Hedging**

Fliway's current policy is to review whether to hedge its interest rate risk on a regular basis. Fliway currently has two interest rate hedges in place using derivative interest rate products. The principal covered by these two hedges is $5 million in each case, totalling $10 million. One hedge is an interest rate swap while the other is an interest rate cap and collar. The PFI has been prepared on the basis that these hedges remain in place, with the average forecast interest rate across the two hedges being 4.0% during the PFI period.

**Other financing considerations**

The Banking Facilities contain certain representations, undertakings, events of default and review events which are standard for facilities of this nature and in some cases are subject to certain agreed qualifiers such as materiality and threshold amounts. If an event of default occurs, ANZ may (among other things) require repayment of the Banking Facilities or enforce the security held by ANZ.

The Banking Facilities contain the following financial ratios:

- the adjusted interest cover ratio (Charging Group EBITDA to Charging Group Interest Costs (each as defined in the relevant Banking Facilities)) shall not be less than 3.50:1 at all times; and
- the leverage ratio (Net Bank Debt to Charging Group EBITDA (each as defined in the relevant Banking Facilities)) shall be no greater than 3.00:1 at all times.

## 10. Equity and dividends

The payment of dividends and other distributions by Fliway is solely at the Board's discretion and depends on a number of factors. The payment of dividends is not guaranteed and Fliway's dividend policy may change in the future.

Factors expected to influence or affect the Board's decision to pay dividends over time include:

- any statutory or regulatory requirements;
- the financial performance of Fliway;
- one-off or non-recurring events;
- Fliway's capital expenditure requirements;
- the availability of imputation credits;
- prevailing business and economic conditions;
- the outlook for all of the above; and
- any other factors deemed relevant by the Board.

Except as explained below in relation to FY15F and subject to the above, Fliway intends to make dividend payments to Shareholders twice each year, in respect of half years ending 31 December and full years ending 30 June. The dividends for these periods are expected to be paid to Shareholders in March and September respectively.

The dividend is currently expected to be approximately 50% to 70% of NPAT. However, the actual ratio of dividends paid to NPAT is expected to vary over time reflecting the above factors. Fliway intends to weight dividends to the second half, with the first half targeting 30% to 40% of the total expected dividend for the year. However, the split will vary according to actual and forecast NPAT and the factors described above.

The first dividend payment is expected to be paid in September 2015 for the three month period from the Allotment Date to 30 June 2015 and is based on the forecast NPAT for the three month period assuming a payout ratio of 70%.

It is the Board's intention to attach imputation credits to dividends to the extent they are available. Dividends are expected to be fully imputed for New Zealand tax purposes**.**

## 11. Sensitivity analysis

PFI is inherently subject to uncertainty and, therefore, actual results are likely to vary from the PFI and this variation could be material. You can find a full description of the assumptions relevant to the PFI for FY15F and 1H16F above, along with a description of risks in Section 8 *What Are My Risks?.*

The sensitivity analysis below is provided to assist you with assessing the potential effects of variations in certain key assumptions (defined as those most likely to materially affect results). The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes but are for information purposes to allow potential investors to gain an understanding of the sensitivities of financial outcomes to changes in these key assumptions.

Care should be taken in interpreting the information set out below. Each movement in an assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case. Movements in one assumption may have offsetting or compounding effects on other variables, the impact of which is not reflected in the PFI. In addition, it is possible that more than one assumption may move at any point in time, giving rise to cumulative effects, which are not reflected in the PFI.

As capacity management is very important to Fliway's business, the key assumption that is considered to have significant potential impact on the prospective financial performance is volume (i.e., revenue). In addition, sensitivities have been considered in relation to fuel costs and foreign exchange, which could ordinarily be assumed to have a potential NPAT impact on Fliway's earnings.

### Revenue

- **Domestic**

  - **Transport**

    The impact of a change in capacity requirements from customers (whether through uptrade or downtrade, or whether through customer wins or losses) can significantly vary depending on the size of the volume change, whether it is considered temporary or permanent (i.e., whether management take mitigating actions), and whether (in the case of uptrade or new wins) it fits within the capacity of the existing network or whether it requires the addition of further capacity to the existing network.

    The impact on NPAT of an increase in revenue by one dollar could be positive, neutral or even negative, depending on these circumstances. The impact on NPAT of a decrease in revenue can be similarly variable. As a result, it is not practical to accurately show the

NPAT impact of any particular volume change without making some assumptions in relation to these factors.

- **Logistics**

  The revenue impact of a change in demand for Logistics depends on whether the change relates to storage or activity-based services.

  With regards to storage related revenue, the impact of a change in storage capacity requirements from customers can vary significantly depending on whether the volume fits within the existing capacity or whether it requires to be stored in non-Fliway premises. As such, the impact on NPAT of an increase in storage revenue by a dollar could be positive, neutral or even negative depending on the circumstances. The impact on NPAT of a decrease in revenue can be similarly variable. As a result, it is therefore not practical to accurately show the NPAT impact of a revenue change.

  With regards to activity based services, the impact of an increase or a decrease in revenue by a dollar would result in an average $0.13 movement in NPAT.

- **International**

  International revenue can be generated through either brokerage or forwarding activity. On average, the impact of an increase or decrease in International revenue would be a $0.19 movement in NPAT. However, it could fluctuate between $0.06 and $0.33 depending on the nature of the revenue.

As demand fluctuates and new demand levels become more permanent, step changes can be implemented within the business to increase or decrease capacity accordingly (such as the leasing of additional warehousing premises or capital expenditure in relation to additional fleet). The above sensitivities do not assume that any of these step changes would occur.

The above sensitivities also do not take into account any mitigating measure that Fliway may take. In the case of a reduction in capacity, Fliway would endeavour to reduce operating costs.

**Costs**

- **Fuel costs**

  Fuel is recharged to customers through a fuel adjustment factor that is factored into customer rates. For the majority of customers, fuel can trade within a 10 cents per litre (diesel) band without any adjustment being made to the fuel adjustment factor recharged to customers. Should the cost of fuel move out of this band, an adjustment of 1% of revenue is made through the fuel adjustment factor.

  Given the “no adjustment” band of 10 cents per litre, Fliway’s exposure is limited to 1% of Fliway Transport revenue. Outside of this range, the impact is passed through to customers.

- **Foreign exchange**

  Fliway has some exposure within its International division to fluctuations in foreign exchange rates. However, because costs are incurred in the same currency as income is received, this exposure has a relatively natural hedge and any direct impact from a movement in foreign exchange is likely to be immaterial to Fliway’s NPAT.

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6 March 2015

The Directors
Fliway Group Limited
66 Westney Road, Mangere
**MANUKAU CITY**

Dear Directors

**INDEPENDENT AUDITOR'S REPORT**

This report is issued in respect of the public offer of ordinary shares in Fliway Group Limited (the "Company" and "Issuer") in terms of the Prospectus dated 6 March 2015 (the "Prospectus").

This report is made solely to the directors of the Company (the "directors"), in accordance with clause 28 of Schedule 1 to the Securities Regulations 2009 ("Schedule 1"). Our work has been undertaken so that we might state to the directors those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to Section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the directors for this report, or for the opinions we have formed.

**Directors' Responsibilities**

The directors are responsible for the preparation and presentation of:

a) the financial statements provided pursuant to clause 23 of Schedule 1. The financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the "Group"), in Appendix 2 to the Prospectus, comprise the consolidated and separate statements of financial position as at 30 June 2014, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The directors are responsible to ensure that the financial statements comply with generally accepted accounting practice in New Zealand and give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
b) the unaudited interim financial statements of the Group for the six month period ended 31 December 2014 in Appendix 3 to the Prospectus as required by clause 24 of Schedule 1.
c) the summary financial statements of the Group for the years ended 30 June 2010, 2011, 2012, 2013, and 2014 and the six month period ended 31 December 2014 in Appendix 1 to the Prospectus as required by clause 9 of Schedule 1; and
d) the prospective financial information of the Group for the year ending 30 June 2015 and the six month period ending 31 December 2015, including the assumptions on which the prospective financial information is based, as required by clause 11 of Schedule 1.

**Auditor's Responsibilities**

We are responsible for:

a) expressing an independent opinion on the financial statements of the Group as at 30 June 2014, and for the year ended on that date, prepared and presented by the directors, and reporting our opinion in accordance with clause 28(1) of Schedule 1;
b) reporting, in accordance with clause 28(1)(h) of Schedule 1, on the amounts included in the summary financial statements for the years ended 30 June 2010, 2011, 2012, 2013, and 2014 and the six month period ended 31 December 2014; and
c) reporting, in accordance with clause 28(2) of Schedule 1, on the prospective financial information for the year ending 30 June 2015 and the six month period ending 31 December 2015.

This report has been prepared for inclusion in the Prospectus for the purpose of meeting the requirements of clause 28 of Schedule 1. We disclaim any assumption of responsibility for reliance on this report or the amounts and disclosures included in the financial statements, the summary financial statements and the prospective financial information for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Prospectus not mentioned in this report.

**Independence**

When carrying out the audit we followed the independence requirements of the External Reporting Board.

In addition to the audit, our firm carries out other assurance, taxation, and due diligence assignments for the Company and has been appointed as the investigating accountant and due diligence provider in respect of this public offer. Partners and employees of our firm also deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group. These services have not impaired our independence as auditor of the Company and Group. Other than the audit and these assignments, the firm has no relationship with or interests in the Company or Group.

**Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We have also undertaken procedures to provide reasonable assurance that the amounts in the summary financial statements have been correctly taken from audited financial statements for the years ended 30 June 2010, 2011, 2012, 2013, and 2014 and from unaudited interim financial statements for the six month period ended 31 December 2014.

In addition, we have undertaken procedures to provide reasonable assurance that the prospective financial information, so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the directors of the Company and are presented on a basis consistent with the accounting policies normally adopted by the Group. The assumptions relate to future events and we are not in a position to, and do not express an opinion on, these assumptions.

**Unqualified Opinion**

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

In our opinion:

a) proper accounting records have been kept by the Group as far as appears from our examination of those records; and
b) the financial statements in Appendix 2 to the Prospectus that are provided pursuant to clause 23 of Schedule 1 and that are audited:
   i. subject to the Securities Regulations 2009, comply with generally accepted accounting practice in New Zealand;
   ii. give a true and fair view of the matters to which they relate;

   Our audit of the financial statements of the Group as at 30 June 2014 and for the year ended on that date was completed on 10 November 2014 and our unmodified opinion was expressed as at that date. We have not performed any procedures in relation to the 30 June 2014 annual financial statements subsequent to 10 November 2014.
c) the amounts in the summary financial statements, in Appendix 1 to the Prospectus, pursuant to clause 9 of Schedule 1, have been correctly taken from audited financial statements of the Group for the years ended 30 June 2010, 2011, 2012, 2013, and 2014 and the unaudited interim financial statements of the Group for the six month period ended 31 December 2014; and
d) the prospective financial information for the year ending 30 June 2015 and the six months ending 31 December 2015 set out on pages 61 to 66, so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the directors of the Company set out on pages 67 to 76 of this Prospectus and is presented on a basis consistent with the accounting policies normally adopted by the Group as outlined in the financial statements in Appendix 2 to the Prospectus.

Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Accordingly we express no opinion as to whether results consistent with the prospective financial information will be achieved.

We completed our work for the purposes of this report on 6 March 2015 and our unqualified opinion is expressed as at that date.

Yours faithfully
**DELOITTE**

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6 March 2015

The Directors
Fliway Group Limited
66 Westney Road, Mangere
**MANUKAU CITY**

**INVESTIGATING ACCOUNTANT'S REPORT ON PROSPECTIVE FINANCIAL INFORMATION**

## 1. Introduction

We have prepared this Investigating Accountant's Report (the "Report") in accordance with our engagement letter dated 9 September 2014 on the prospective financial information of Fliway Group Limited (the "Company") and its subsidiaries (together "the Group") for inclusion in the prospectus to be dated on or about 6 March 2015 (the "Prospectus") to be issued by the Company in respect of the Initial Public Offering of ordinary shares in Fliway Group Limited (the "Offer"). This Report is an independent limited assurance report, the scope of which is set out below.

Expressions defined in the Prospectus have the same meaning in this Report.

## 2. Scope

Deloitte has been requested to prepare this Report to cover the Prospective Financial Information as defined below.

The prospective financial information as set out in pages 61 to 76 of the Prospectus comprises:

- Prospective consolidated statements of comprehensive income of the Group for the year ending 30 June 2015 and six months ending 31 December 2015;
- Prospective consolidated statements of changes in equity of the Group for the year ending 30 June 2015 and six months ending 31 December 2015;
- Prospective consolidated statements of financial position of the Group as at 30 June 2015 and 31 December 2015;
- Prospective consolidated statements of cash flows of the Group for the year ending 30 June 2015 and six months ending 31 December 2015; and
- Notes and assumptions to these consolidated prospective statements of comprehensive income, changes in equity, financial position and cash flows,

(hereafter, the "Prospective Financial Information").

The Prospective Financial Information is based on the assumptions as outlined on pages 67 to 76 of the Prospectus.

### 3. Directors’ Responsibility for the Prospective Financial Statements

The Directors of the Company (“the Directors”) have prepared and are responsible for the preparation and presentation of the Prospective Financial Information, including the assumptions based on best information that are reasonable and supportable (as required in FRS-42 Prospective Financial Information), on which the Prospective Financial Information is based.

### 4. Our Responsibility

Our responsibility is to express a conclusion on the Prospective Financial Information based on our review.

We have conducted an independent review of the Prospective Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention that would cause us to believe that in any material respect:

a) The Directors’ assumptions based on best information do not provide a reasonable and supportable basis for the preparation of the Prospective Financial Information;

b) The Prospective Financial Information was not prepared on the basis of the assumptions based on best information; and

c) The Prospective Financial Information is not presented fairly for the periods to which it relates in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed in the financial statements of Fliway Group Limited as at and for the year ended 30 June 2014 in Appendix 2 to the Prospectus.

The Prospective Financial Information has been prepared by the Directors to provide investors with a guide to the Group’s potential future financial performance and position based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Prospective Financial Information. Actual results may vary materially from the Prospective Financial Information and the variation may be materially positive or negative. Accordingly, investors should have regard to the risk factors set out under the heading “What are my risks?” in Section 8 of the Prospectus.

Our review of the assumptions based on best information underlying the Prospective Financial Information was conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000, issued by the External Reporting Board, applicable to assurance engagements other than audits or reviews of historical financial information.

Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to form the conclusion set out below.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Prospective Financial Information.

### 5. Review conclusion on Prospective Financial Information

Based on our review of the Prospective Financial Information, which is not an audit, and based on our review of the reasonableness of the Directors’ assumptions based on best information giving rise to the

Prospective Financial Information, nothing has come to our attention which causes us to believe that in any material respect:

- The Directors' assumptions based on best information set out in the Prospective Financial Information section of the Prospectus, and subject to the risks set out elsewhere in the Prospectus, do not provide a reasonable and supportable basis for the preparation of the Prospective Financial Information;
- The Prospective Financial Information was not prepared on the basis of the assumptions based on best information; and
- The Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed in the financial statements of Fliway Group Limited as at and for the year ended 30 June 2014 in Appendix 2 to the Prospectus.

The assumptions, set out on pages 67 to 76 of the Prospectus, which form the basis of the Prospective Financial Information, are subject to significant uncertainties and contingencies often outside the control of the Group and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by the Group may vary significantly from the Prospective Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Prospective Financial Information, as future events, by their very nature, are not capable of independent substantiation.

**6. Independence or Disclosure of Interest**

Deloitte does not have any interests in the outcome of the Offer other than the preparation of this Report, participation in due diligence in connection with the Prospectus, and our audit role, for all of which normal professional fees will be received. In addition to our role as investigating accountant and auditor, our firm carries out other assurance, taxation, and due diligence assignments for the Company. Partners and employees of our firm also deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group. These services have not impaired our independence as investigating accountant of the Company and Group. The firm has no other relationship with or interests in the Company or Group.

**7. Restriction of Use**

This Report is made solely to the Directors of the Company for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Prospective Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared. This Report should be read in conjunction with the Prospectus. However, we take no responsibility for, nor do we report on, any part of the Prospectus not specifically mentioned in this report. To the fullest extent permitted by law and subject to section 61 of the Securities Act 1978 we do not accept or assume responsibility to anyone other than the directors of Fliway Group Limited for the conclusions that we have formed.

Yours faithfully
**DELOITTE**

Andrew Hirst
**Partner**

# 10. DETAILS OF THE OFFER

## 10.1 The Offer

The Offer is an offer of ordinary shares in Fliway, comprising both:

- New Shares to be issued by Fliway; and
- Existing Shares offered by the Selling Shareholders.

The Offer Shares will be offered at the Offer Price, which will be set on or about 17 March 2015 following the completion of the Bookbuild in which Institutional Investors and NZX Firms will be invited to participate (as described more fully below). On allotment, all Offer Shares will be fully-paid ordinary shares which rank equally with each other and all other Shares.

The Offer is made by Fliway and the Selling Shareholders on the terms, and is subject to the conditions, set out in this Prospectus and the Investment Statement.

**Size of the Offer**

The Offer is an initial public offering of 22.7 million to 31.8 million Offer Shares in Fliway Group Limited (based on the Indicative Price Range, Fliway's intention to raise $9.0 million and the Selling Shareholders' intention to retain between 30% and 50% of their Existing Shares in Fliway). The Offer Shares comprise:

- 6.5 million to 7.5 million New Shares (based on the Indicative Price Range) to be issued on the Allotment Date; and
- 15.2 million to 25.3 million Existing Shares to be sold by the Selling Shareholders (based on Fliway undertaking a Share split as described under Section 10.2 *Shareholding structure – before and after the Offer* following the Bookbuild). The exact number of these Existing Shares will only be known at the conclusion of the Bookbuild.

Based on there being 6.5 million – 7.5 million of New Shares issued and the Selling Shareholders selling down between 15.2 million to 25.3 million Existing Shares (following the Share split) at either end of the Indicative Price Range, the expected gross proceeds from the Offer will be $27.3 million to $44.5 million.

The Selling Shareholders have offered to sell up to 25.3 million Existing Shares (following the Share split), however, Applications will be first applied to the offer of New Shares by Fliway and, prior to the Bookbuild opening, the Selling Shareholders may agree with Fliway to offer a lesser number of Existing Shares under the Offer.

**Structure of the Offer**

The Offer comprises:

- the Broker Firm Offer which is available only to New Zealand resident clients of NZX Firms who have received an allocation from that NZX Firm; and
- the Institutional Offer, which consists of an invitation to bid for Offer Shares made to selected Institutional Investors in New Zealand and in Australia.

There is no general public offer under which you may subscribe for Offer Shares. Members of the public wishing to subscribe for Offer Shares under the Offer must do so through a NZX Firm with a Firm Allocation.

The Offer will remain open until either the Closing Date or such other time and date as is determined by Fliway and the Selling Shareholders.

The allocation of Offer Shares between the Broker Firm Offer and the Institutional Offer will be determined by Fliway and the Selling Shareholders, having consulted with the Arranger and Lead Manager and having regard to the allocation policies outlined under the headings “Allocation under the Broker Firm Offer” and “Allocation under the Institutional Offer” below.

**Pricing of the Offer**

An Indicative Price Range of $1.20 to $1.40 per Offer Share has been established for the Offer.[43] The final Offer Price per Offer Share will be determined by Fliway and the Selling Shareholders in consultation with the Arranger and Lead Manager following the conclusion of the Bookbuild process discussed below. The Offer Price is expected to be announced to the NZX and posted on the Offer website www.fliwayoffer.co.nz on or about 18 March 2015.

The Offer Price will be determined using a bookbuild process managed by the Arranger and Lead Manager. On 17 March 2015 the Arranger and Lead Manager will carry out the Bookbuild, pursuant to which they will invite Institutional Investors and NZX Firms to submit bids, indicating the number of Offer Shares they wish to apply for at a range of prices. The Bookbuild will be used to assist Fliway and the Selling Shareholders to determine the Offer Price and the allocations of the Offer Shares. The Offer Shares will not necessarily be the highest price at which Offer Shares could be sold under the Offer and may be within, above or below the Indicative Price Range.

In determining the Offer Price, consideration may be given to the following factors:

- the level of demand for Offer Shares in the Bookbuild at various prices;
- the desire for a successful and consistent aftermarket for the Shares; and
- any other factors that Fliway and / or the Selling Shareholders consider relevant.

The Application Form requires that you apply for a specified number of Offer Shares at the Offer Price and pay the Offer Price in full. All Offer Shares allotted under the Offer will be allotted at the Offer Price.

The minimum Application amount for the Broker Firm Offer is 2,000 Offer Shares. Fliway and the Selling Shareholders reserve the right to accept Applications for less than that minimum amount.

**Purpose of the Offer and use of proceeds**

The purpose of the Offer and intended use of proceeds is to:

- provide an opportunity for the Selling Shareholders to realise a portion of their investment in Fliway;
- enable the Company to list on the NZX Main Board, which will provide additional access to capital markets (if required) to pursue further growth opportunities in accordance with its strategy; and
- provide a market for the Shares and an opportunity for stakeholders to invest in the Company.

The Offer and Listing will also:

- provide the broader Fliway business with the benefits of an enhanced profile that arises from being a listed entity;

[43] The range provided to the parties participating in the Bookbuild will be updated at the time of the Bookbuild and may differ from the Indicative Price Range.

- increase Fliway's transparency through the dissemination of more information to the market; and
- provide funds to repay Shareholder Loans and pay down term loan facilities and costs associated with the Offer.

| Sources | $m | Uses | $m |
|---|---|---|---|
| Sale of Existing Shares | $26.4 | Proceeds from Existing Shares to the Selling Shareholders | $26.4 |
| Issue of New Shares | $9.0 | Proceeds from issue of New Shares to Fliway to be applied to: | $9.0 |
| | | • Repayment of Shareholder Loans ($2.8) | |
| | | • Reduction in term loan facility ($3.7) | |
| | | • Transaction costs ($2.6) | |
| **TOTAL** | **$35.4** | **TOTAL** | **$35.4** |

This table is indicative only and assumes that the Offer Price is set at the mid-point of the Indicative Price Range and the Selling Shareholders retain a stake of 40% (i.e., the mid-point of the sell down range). Numbers are rounded to the nearest hundred thousand, which may result in some minor discrepancies between the sum of components and totals.

**Discretion relating to the Offer**

Fliway and the Selling Shareholders may withdraw the Offer, or any part of it, at any time before the allotment of Offer Shares to successful Applicants in the applicable part of the Offer. If the Offer, or any part of it, is withdrawn, all relevant Application Monies will be refunded (without interest) to the relevant Applicant within five Business Days after the decision to withdraw the Offer is announced.

Fliway and the Selling Shareholders also reserve the right to reduce the number of Shares being sold down by the Selling Shareholders, close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or settlement or accept bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Offer Shares than applied or bid for. Fliway and the Selling Shareholders also retain the discretion to:

- alter the dates of the Bookbuild; and
- determine the allocation of Offer Shares under the Offer (as described more fully under the "Allocation under the Broker Firm Offer" and "Allocation under the Institutional Offer" headings below).

If the Company amends the Closing Date, any such amendment will be announced through NZX and posted to the Offer website www.fliwayoffer.co.nz.

**Refunds and rounding**

If an Application is rejected, all of the relevant Application Monies will be refunded (without interest) to the relevant Applicant by no later than five Business Days after the Allotment Date or a decision to withdraw the Offer is announced (as the case may be).

If the total dollar amount of the Offer Shares you apply for and the value (based on the Offer Price) of the Offer Shares you receive differs by more than the Offer Price due to scaling of your Application, this difference will be refunded to you (without interest) no later than five Business Days after the Allotment Date. If this difference is less than the Offer Price, it will be retained by Fliway.

Refunds will be paid in the manner you elect any future dividend payments to be paid on the Application Form.

## 10.2 Shareholding structure – before and after the Offer

**Current shareholding**

The Selling Shareholders are the sole Shareholders of Fliway Group Limited on the date of this Prospectus, owning 100% of the Shares on issue.

Following the determination of the Offer Price, but before the allotment of Shares under the Offer, Fliway will undertake a Share split of the 102 Existing Shares on issue such that upon Listing, Fliway will have 45.4 million Shares on issue (subject to rounding only). The ratio of the Share split will depend on the Offer Price, but based on the lower and upper values of the Indicative Price Range this will be between a 371,616 to 382,167 to 1 Share split.

**Selling Shareholders**

The Selling Shareholders propose to sell up to 25.3 million Existing Shares under the Offer (following the Share split).

The Selling Shareholders have agreed not to sell, transfer or otherwise dispose of any of their Shares which are not sold or transferred prior to, or as part of, the Offer, for a minimum period of time. For further information please see Section 10.9 *Escrow arrangements*.

**Indicative ownership structure**

Following completion of the Offer the Shareholders of Fliway will be:

- investors who subscribe for Offer Shares under the Institutional Offer and the Broker Firm Offer; and
- the Selling Shareholders, who will retain between 30% and 50% of the Shares in Fliway.

The Selling Shareholders do not guarantee, or undertake, any liability in respect of the Offer Shares.

## 10.3 Broker Firm Offer

| | |
|---|---|
| **Who may apply** | The Broker Firm Offer is open to persons who have received an allocation from their NZX Firm and who are residents of New Zealand. If you have been offered an allocation by an NZX Firm having a Firm Allocation, you will be treated as an Applicant under the Broker Firm Offer in respect of that allocation. You should contact your NZX Firm to determine whether they may allocate Offer Shares to you under the Broker Firm Offer. |
| **How to apply** | Investors who have received an allocation of Offer Shares in the Broker Firm Offer must follow the instructions provided by their NZX Firm or Broker.<br><br>Those Applicants must complete the Application Form at the back of the Investment Statement. By making an Application, you declare that you were given a copy of the Investment Statement, together with an Application Form. Please contact your NZX Firm or Broker if you require further instructions.<br><br>Any Application Form must be stamped by an NZX Firm or Broker so that the correct allocation of Offer Shares is received. |

| | |
|---|---|
| **Minimum and maximum Application amount** | Amounts will be determined by your NZX Firm or Broker. However, the minimum Application amount under the Broker Firm Offer is 2,000 Offer Shares ($2,400 - $2,800 based on the Indicative Price Range). |
| **How to pay** | Applicants under the Broker Firm Offer should make payments in accordance with the directions of the NZX Firm or Broker from whom you received an allocation. |
| **Return of Application Forms and Application Monies** | Applicants under the Broker Firm Offer should send their completed Application Form and Application Monies to their NZX Firm or Broker in time to enable forwarding to the Share Registrar by 5.00pm on the Closing Date.<br><br>Alternatively, Applications can be lodged with Fliway, any NZX Firm or Broker, the Arranger and Lead Manager, or any other channel approved by NZX so as to be received in time to enable forwarding to the Share Registrar by 5.00pm on the Closing Date. |
| **Closing Date for receipt of Applications** | The Broker Firm Offer opens at 9.00am on 18 March 2015 and is expected to close at 5.00pm on 1 April 2015.<br><br>Fliway may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date.<br><br>Applicants applying for Offer Shares using an Application Form are encouraged to submit an Application Form and Application Monies to their NZX Firm or Broker as early as possible in advance of the Closing Date and to allow a sufficient period for mail processing time. |
| **How to obtain a copy of this Prospectus and the Investment Statement** | Please contact your NZX Firm or Broker for instructions. You may also obtain a copy of this Prospectus and the Investment Statement as follows:<br><br>• you can download a copy at www.fliwayoffer.co.nz; or<br><br>• request a copy from the Share Registrar, Link Market Services by phoning +64 9 375 5998.<br><br>**While you may obtain a copy of these documents as set out above, your Application will only be accepted under the Broker Firm Offer if it is lodged through an NZX Firm or Broker with an allocation.** |

## 10.4 Further terms of the Broker Firm Offer

### Availability of funds

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque(s), bank draft(s) or direct debit payment(s). If the amount of your cheque(s), bank draft(s) or direct debit payment(s) for Application Monies (or the amount for which those cheque(s), bank draft(s) or direct debit payment(s) clear in time for allocation) is less than the dollar amount of the Offer Shares applied for, you may be taken to have applied for such lesser number of Offer Shares for which your cleared Application Monies will pay (and to have specified that amount on your Application Form) or your Application may be rejected.

### Allocation under the Broker Firm Offer

The allocation of Offer Shares under the Broker Firm Offer to NZX Firms, for the purpose of making Firm Allocations to their New Zealand resident retail clients, will be decided by Fliway and the Selling Shareholders in their sole discretion, having consulted with the Arranger and Lead Manager. That decision will be influenced by a number of factors, which may include:

- the price for Offer Shares bid by particular bidders;
- the number of Offer Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;

- the overall level of demand, including under the Institutional Offer;
- an assessment of whether the clients of a particular bidder will be long term Shareholders; and
- any other factors that Fliway and / or the Selling Shareholders consider appropriate.

Offer Shares which have been allocated under the Broker Firm Offer to NZX Firms as a Firm Allocation for allocation to their New Zealand resident retail clients will be issued to the Applicants nominated by those NZX Firms.

It will be a matter for the NZX Firm to determine how they allocate Offer Shares among their retail clients, and they (and not Fliway, the Selling Shareholders, the Arranger and Lead Manager or any other person) will be responsible for ensuring that retail clients who have been allocated Offer Shares receive the relevant Offer Shares.

If the Offer is oversubscribed, your Application for Offer Shares in the Broker Firm Offer may be scaled back. This means that the number of Offer Shares you receive may be lower than the number of Offer Shares for which you apply. The NZX Firm will determine whether your Application will be scaled back. Fliway and the Selling Shareholders retain discretion to accept oversubscriptions.

**Acceptance of Applications**

Applicants must apply for a specific number of Offer Shares and pay upon Application the full amount for the Offer Shares applied for in the Application Form based on the Offer Price.

An Application in the Broker Firm Offer is an offer by the Applicant to Fliway and the Selling Shareholders to subscribe for all or any of the number of the Offer Shares specified in the Application Form, at the Offer Price and on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus), the Investment Statement and the Application Form (including the conditions regarding quotation on the NZX Main Board). To the extent permitted by law, the offer by an Applicant is irrevocable. By submitting an Application Form, the Applicant agrees to be bound by these terms and conditions and the Constitution.

An Application may be accepted by Fliway and the Selling Shareholders in respect of the full number of Offer Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

## 10.5 Institutional Offer

Fliway, through the Arranger and Lead Manager, will invite certain Institutional Investors in New Zealand and Australia, along with NZX Firms, to bid for Offer Shares in the Institutional Offer.

The Institutional Offer will be conducted under the Bookbuild as described more fully at Section 10.1 *The Offer* under the heading "Pricing of the Offer". Full details of how to participate, including bidding instructions, will be provided by the Arranger and Lead Manager to invited participants in due course.

The Arranger and Lead Manager has separately advised Institutional Investors of the bidding and settlement procedures for the Bookbuild.

**Allocation under the Institutional Offer**

The number of Offer Shares to be offered under the Institutional Offer, and the allocation of Offer Shares among Applicants in the Institutional Offer, will be determined by Fliway and the Selling Shareholders in their sole discretion, having consulted with the Arranger and Lead Manager. Fliway and the Selling Shareholders will have absolute discretion regarding the basis of allocation of Offer Shares among Institutional Investors. There is no assurance that any Applicant under the Institutional Offer or NZX Firm will be allocated any Offer Shares, or the number of Offer Shares for which it has bid. Fliway and the Selling Shareholders will retain the ability to scale back allocations to NZX Firms and Brokers following the close of the Offer.

The allocation policy will be influenced by a number of factors, which may include:

- the price for Offer Shares bid by particular bidders;
- the number of Offer Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- Fliway's and the Selling Shareholders' desire for an informed and active trading market following Listing on the NZX Main Board;
- Fliway's and the Selling Shareholders' desire to establish a wide spread of institutional Shareholders;
- the overall level of demand, including across the Broker Firm Offer;
- the size and type of funds under management of particular bidders;
- an assessment of whether particular bidders will be long term Shareholders; and
- any other factors that Fliway and / or the Selling Shareholders consider appropriate.

All successful Applicants will pay the Offer Price for each Offer Share allocated to them under the Institutional Offer.

## 10.6 About the Shares

Each Share confers an equal right on the holder to:

- attend and vote at a meeting of Shareholders, including the right to cast one vote per Share on a poll on any resolution, such as a resolution to:
  - appoint or remove a Director;
  - adopt, revoke or alter the Constitution;
  - approve a major transaction (as that term is defined in the Companies Act);
  - approve the amalgamation of Fliway under section 221 of the Companies Act; or
  - place Fliway in liquidation;
- receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by Fliway in respect of that Share;
- receive an equal share with other Shareholders in the distribution of surplus assets in any liquidation of Fliway;
- be sent certain information, including notices of meeting and company reports sent to Shareholders generally; and
- exercise the other rights conferred upon a Shareholder by the Companies Act and the Constitution.

A Shareholder's ability to exercise these rights is subject to restrictions contained in the Constitution and the NZX Main Board Listing Rules.

Once the Shares are trading, further information about Fliway will be available at www.nzx.com.

**What returns will I get?**

Your returns on Shares may be:

- dividends paid, and other distributions, which may be made in respect of your Shares; and / or
- any gains you make if you sell or dispose of your Shares for a net price that is greater than the price you paid for them (although the market price of your Shares may also decline, making them worth less than what you paid for them).

No amount of returns is promised in respect of the Shares. The key factors that will determine your returns (if any) are the market price for Shares and the Board's decision in relation to dividends or other distributions. If you sell your Shares, you may be required to pay brokerage or other sale expenses. Tax will also affect your returns from the Shares. You should seek your own tax advice in relation to your Shares.

Fliway is legally liable to pay you any dividends or other distributions declared on your Shares.

If you sell any of your Shares, the purchaser of those Shares will be legally liable to pay you the sale price.

You may cash in your investment by selling your Shares. Any sale of Shares must be made in accordance with the requirements of the Constitution, the NZX Main Board Listing Rules and any other applicable laws.

**Dividend policy**

Dividends and other distributions with respect to the Shares are made at the discretion of the Board of Fliway. The payment of dividends is not guaranteed and Fliway's dividend policy may change. The Board's decisions in relation to the level of reserves and retentions may affect any dividends or distribution you receive from the Shares.

For more information on Fliway's dividend policy, refer to Section 9.4 *Prospective financial information* under the heading "Specific Assumptions".

**Can my investment be altered?**

The full terms of the Offer, including the Offer Price and the amounts payable on Application, are set out in this Prospectus and the Investment Statement. Those terms may be altered by Fliway and the Selling Shareholders by lodging an amendment to this Prospectus with the Registrar of Financial Service Providers. However, those terms cannot be altered without an Applicant's consent after an Application has been accepted and Offer Shares allotted to the Applicant.

As at the date of this Prospectus, the Offer Price has not yet been set. The Offer Price will be set by Fliway and the Selling Shareholders. Once set, the Offer Price cannot be altered. How the Offer Price will be determined is more fully described at Section 10.1 *The Offer* under the heading "Pricing of the Offer".

The rights attaching to Shares are governed by the Constitution, the Companies Act and the NZX Main Board Listing Rules. Fliway may only amend its Constitution with approval by a special resolution of Shareholders.

The Companies Act and NZX Main Board Listing Rules restrict Fliway from taking any action that affects the rights of any interest group of Shareholders without approval by a special resolution of that affected interest group.

A special resolution must be approved by at least 75% of the votes of those Shareholders entitled to vote and who actually vote on that resolution. Under certain circumstances, if your rights are affected by an action approved by a special resolution, you may require Fliway to purchase your Shares.

**What do I need to do to sell my investment?**

If you wish to sell your Shares on the NZX Main Board after confirming your allocation, you must contact an NZX Firm and have a CSN and an Authorisation Code (**FIN**). Opening a new broker account can take a number of days depending on the NZX Firm's new client procedures. If you do not have a CSN, you will:

- be assigned one when you set up an account with an NZX Firm; or
- receive one by mail from the Share Registrar when your Shares are allotted to you.

If you have a broker and have not received a FIN by the date you want to trade your Shares, your broker can arrange to obtain your FIN from the Share Registrar.

You should not attempt to sell any Shares until you know whether any, and how many, Offer Shares you have been allocated. Applicants who sell Shares before they receive an allotment notice or initial statement of holding do so at their own risk. None of Fliway, the Arranger and Lead Manager, the Share Registrar or any of their respective directors, officers or employees, or the Selling Shareholders, accepts any liability or responsibility should any person attempt to sell or otherwise deal with Shares before the statements confirming allotments of Shares are received by you or the successful bidders under the Offer (as applicable).

**Who do I contact with inquiries about my investment?**

Inquiries about the Shares may be directed to the Share Registrar. The contact details of the Share Registrar are set out in the Directory.

**Is there anyone to whom I can complain if I have problems with the investment?**

Complaints about the investment may be made to the Share Registrar. The contact details of the Share Registrar are set out in the Directory. There is no ombudsman or approved dispute resolution scheme to whom complaints can be made about this investment.

## 10.7 NZX Main Board Listing

Fliway has applied to NZX for permission to list Fliway and to quote the Shares on the NZX Main Board and all the requirements of NZX relating to the application that can be complied with on or before the date of this Prospectus have been duly complied with. However, NZX accepts no responsibility for any statement in this Prospectus. NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a is a licensed market operated by NZX, which is a licensed market operator regulated under the Financial Markets Conduct Act 2013.

Initial quotation of the Shares on the NZX Main Board is expected to occur on 9 April 2015 under the ticker code "FLI".

## 10.8 Failure to achieve Listing

In the event that admission to list the Shares on the NZX Main Board is denied or the Offer does not proceed for any other reason, all Application Monies will be refunded in full without interest no later than five Business Days after the announcement of the decision not to proceed.

## 10.9 Escrow arrangements

Shares held by the Selling Shareholders and subject to the escrow undertakings described below, will represent between 30% and 50% of the Shares on issue immediately following the Offer.

Under the terms of the Escrow Deed, the Selling Shareholders have agreed not to sell, transfer or otherwise dispose of any of their Shares which are not sold or transferred prior to or as part of the Offer, until at least the first day after the date on which Fliway releases to NZX its preliminary announcement of its financial results for the six month period ending 31 December 2015 (the **Escrow Arrangements**).

The restrictions set out in the Escrow Arrangements do not apply in the following circumstances:

- if a full or partial offer is made under the Takeovers Code for Shares or if a scheme of arrangement (or other arrangement having a substantially similar effect to a Takeover Offer) with respect to the Shares is proposed;
- the Selling Shareholders may grant a security interest over all or any of their Shares that are subject to the Escrow Arrangements in favour of a registered bank or other similar recognised lending institution, provided that the bank or institution has agreed to be bound by the Escrow Arrangements;
- the Selling Shareholders may transfer any of their Shares that are subject to the Escrow Arrangements to a new or replacement trustee of The D & G Hawkesby Trust, provided that the new or replacement trustee accedes to the Escrow Arrangements on the same terms; and
- the Selling Shareholders may transfer any of their Shares that are subject to the Escrow Arrangements to an Associated Person with the prior written approval of the non-interested Directors (as that term is defined in the Companies Act), provided that the Associated Person accedes to the Escrow Arrangements on the same terms and agrees to transfer back any Shares if they cease to be an Associated Person of the Selling Shareholders.

The Selling Shareholders do not guarantee, or undertake any liability in respect of, the Offer Shares or the Shares.

## 10.10 Brokerage

You are not required to pay any brokerage or commission for Offer Shares under the Offer. See Section 12.19 *Preliminary and issue expenses* for details of the brokerage fees payable by Fliway to brokers.

## 10.11 Selling restrictions

This document does not constitute an offer of securities in any jurisdiction in which it would be unlawful. Shares may not be offered or sold in any country outside New Zealand or Australia.

Unless otherwise agreed with Fliway, any person or entity applying for Offer Shares under the Offer will be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of the Offer or an invitation of the kind contained in this Prospectus and is not acting for the account or benefit of a person within such a jurisdiction. Neither Fliway, the Selling Shareholders, the Arranger and Lead Manager nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

**United States**

This document may not be released or distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 (as amended) and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

**General foreign selling restrictions**

The offer of Offer Shares under this Prospectus does not constitute a public offer in any jurisdiction outside New Zealand. This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Offer Shares, the Offer, this Prospectus, or to permit otherwise a public offering of the Offer Shares in any jurisdiction outside New Zealand. The distribution of this Prospectus outside New Zealand may be restricted by law. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

## 10.12 Takeovers Code

The Takeovers Code prohibits, amongst other things, any person (together with their "associates" (as defined in the Takeovers Code)) from becoming the holder or controller of 20% or more of the voting rights in Fliway other than in compliance with the requirements of the Takeovers Code. Investors are advised to seek legal advice in relation to any act, omission or circumstance which may result in that investor breaching any provision of the Takeovers Code. Fliway will not be a code company prior to the Offer but will be a code company after completion of the Offer.

# 11. TAXATION SUMMARY

In this section, 'you' and 'your' refer to the person who acquires the Shares.

Tax will affect your return from the Shares.

The following comments are a general summary of the principal New Zealand tax implications of owning or disposing of the Shares, and do not constitute advice to any person. They are based on New Zealand law at the date of this Prospectus and do not deal with your specific circumstances. Tax laws change from time to time, and any such change may affect your return from the Shares.

You should seek your own tax advice in relation to your Shares.

**Are You Tax Resident in New Zealand?**

Your tax residence status will affect how New Zealand taxes apply to your return from the Shares.

You will be a New Zealand tax resident if you are a natural person and you:

- have a permanent place of abode in New Zealand; and / or
- have been present in New Zealand for more than 183 days in a 12 month period.

If you have been present in New Zealand for more than 183 days in a 12 month period, but do not have a permanent place of abode in New Zealand, and are subsequently absent from New Zealand for more than 325 days in a 12 month period, you stop being a New Zealand resident from the first day of absence.

A company is tax resident in New Zealand if it is incorporated in New Zealand, has its head office or centre of management in New Zealand, or if its directors exercise control of the company in New Zealand (even if the directors' decision-making also occurs outside New Zealand). Unit trusts are treated as companies for New Zealand tax purposes.

Generally, Shares held by a trustee (other than a trustee of a unit trust – see above) will be treated as held by a New Zealand tax resident if a New Zealand tax resident has contributed directly or indirectly to the trust. You should seek your own tax advice regarding the New Zealand tax treatment of trusts.

If you are a New Zealand tax resident and are also tax resident in another country, the following summary of implications for New Zealand tax residents may not apply to you. You should seek your own tax advice regarding your tax residence status.

Fliway will assume you are a New Zealand tax resident, unless you notify the Registrar otherwise and Fliway is satisfied you are not a New Zealand tax resident.

**New Zealand Tax Implications for New Zealand Tax Resident Shareholders**

The following is a summary of the principal New Zealand tax implications of investing in the Shares if you are a New Zealand tax resident.

**Distributions you receive from Fliway**

Distributions you receive from Fliway will generally be taxable dividends for New Zealand tax purposes. Some distributions you receive from Fliway may not be taxable dividends (for example, non-taxable bonus issues and certain returns of capital).

New Zealand operates an imputation regime under which income tax paid by Fliway gives rise to credits, known as imputation credits, which may be attached to dividends it pays. Imputation credits attached to dividends may be used by New Zealand tax resident Shareholders as a credit against their tax liability in respect of the dividends. The maximum ratio at which Fliway can attach imputation credits to dividends is 28:72 (that is, $28 of imputation credits to $72 of cash dividend).

Fliway will generally be required to deduct resident withholding tax (**RWT**) from dividends it pays to you. Currently, the rate of RWT applying to dividends is 33%, less the amount of any imputation credits attached to the dividend. Accordingly, where imputation credits are attached to a dividend at the maximum permitted ratio (that is, the dividend is "fully imputed"), RWT equal to 5% of the gross dividend (that is, cash plus imputation credits) will be deducted. Where a dividend is partially imputed, the amount of RWT deducted will be greater than 5% of the gross dividend. You will be entitled to a credit against your income tax liability for the amount of RWT deducted. Fliway will not deduct RWT from dividends you receive if you hold a current RWT exemption certificate and have provided a copy of that certificate to the Registrar before the dividend is paid to you.

**Example of a Fully Imputed Cash Dividend**

The following is an illustrative example of a fully imputed cash dividend of $72 paid to a New Zealand tax resident natural person Shareholder that does not hold a RWT exemption certificate:

| | | | |
|---|---|---|---|
| | Cash dividend | $72 | A fully imputed cash dividend of $72 will have $28 of imputation credits attached, giving a gross dividend of $100. The gross dividend is taxable income for the Shareholder. |
| **Plus** | Imputation credits attached | $28 | |
| | Gross dividend | $100 | |
| | RWT at 33% | $33 | The RWT deducted by Fliway will be 33% of the gross dividend less the amount of imputation credits attached. |
| **Less** | Imputation credits attached | ($28) | |
| | RWT deducted | $5 | |
| | Cash dividend | $72 | After RWT is deducted, the Shareholder will receive a net cash dividend of $67. The Shareholder will be entitled to a credit against their personal income tax liability for the imputation credits attached to the dividend and the RWT deducted. Therefore, a Shareholder on a 33% marginal tax rate will not have any further tax to pay in respect of the dividend. A Shareholder on a marginal tax rate lower than 33% may be able to use excess tax credits to satisfy a tax liability on other income or to obtain a tax refund. |
| | RWT deducted | ($5) | |
| **Less** | Net cash dividend received | $67 | |

**Filing an income tax return**

If you are not otherwise required to file an income tax return, receiving dividends from Fliway generally will not change that. If your tax rate is less than 33% you may be able to reduce your tax liabilities on other income, or receive a refund of some or all of the RWT deducted from dividends paid to you, by filing a tax return.

If you file a tax return, you must include in your taxable income not only the cash dividend you receive, but also the imputation credits attached to, and RWT deducted from, your Fliway dividend. This total amount included in your taxable income is referred to as the gross dividend. You will be able to use attached imputation credits and a credit for RWT deducted to satisfy (or partially satisfy) your tax liability on the gross dividend. If the attached imputation credits and RWT deducted exceed the amount of tax on the gross dividend, your tax liability on your other income may be reduced as a result of receiving the Fliway dividend.

**Sale or disposal of Shares – New Zealand Tax Resident Shareholders**

Although New Zealand does not currently have a comprehensive capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Shares or be allowed a deduction for any loss you make. You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Shares will be taxable (or any loss will be deductible).

Generally, you will be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of your Shares if you:

- are in the business of dealing in shares;
- acquire your Shares as part of a profit-making undertaking or scheme; or
- acquire your Shares with the dominant purpose of selling or otherwise disposing them.

Your taxable gain (or tax deductible loss) will generally be the difference between the cost of acquiring your Shares and the amount received for their sale or disposal. If you have a taxable gain, you will likely be required to include that gain in an income tax return for the tax year in which the sale or disposal occurs. You will need to pay any tax owing in respect of that gain at your marginal tax rate.

**New Zealand Tax Implications for Non-Resident Shareholders**

The following is a summary of the principal New Zealand tax implications of investing in the Shares if you are not a New Zealand tax resident and you hold less than 10% of the voting interests in Fliway.

**Distributions you receive from Fliway**

Fliway will deduct non-resident withholding tax (**NRWT**) from taxable dividends paid to you. Most distributions by Fliway will be taxable dividends, but non-taxable bonus issues and certain returns of capital will not be taxable dividends. A 15% rate of NRWT will apply:

- to the extent a dividend is fully imputed; or
- if you are tax resident in a country with which New Zealand has a double taxation agreement that provides for such a rate,

otherwise a 30% rate of NRWT will apply.

If Fliway pays a fully imputed dividend, then Fliway may pay you an additional supplementary dividend which effectively offsets the NRWT on the dividend. You should seek your own tax advice regarding whether the NRWT deducted may be claimable as a tax credit in your country of residence.

If Fliway pays a partially imputed dividend, the amount of supplementary dividend (if any) will be reduced on a pro rata basis so that it will effectively offset the NRWT on part of the dividend only.

**Sale or disposal of Shares – Non-Resident Shareholders**

Although New Zealand does not currently have a comprehensive capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Shares or be allowed a deduction for any loss you make. You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Shares will be taxable (or any loss will be deductible).

Generally, you will be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of your Shares if you:

- are in the business of dealing in shares;
- acquire your Shares as part of a profit-making undertaking or scheme; or
- acquire your Shares with the dominant purpose of selling or otherwise disposing them.

Your taxable gain (or tax deductible loss) will generally be the difference between the cost of acquiring your Shares and the amount received for their sale or disposal.

If you are tax resident in a country which has a double taxation agreement with New Zealand, subject to the particular provisions of the relevant double taxation agreement, any New Zealand tax liability on any gain you derive from the sale of your Shares may be relieved under the terms of the relevant double taxation agreement (unless you have a permanent establishment in New Zealand through which the Shares are held).

If you derive a taxable gain on the sale or disposal of your Shares and the New Zealand tax liability is not relieved under a double taxation agreement, you will be required to include that gain in a New Zealand income tax return for the tax year in which the sale occurs and to pay tax on the gain in New Zealand at your applicable rate.

**No Stamp Duty or GST**

New Zealand does not have stamp duty. New Zealand GST should not apply to your investment in the Shares.

# 12. STATUTORY INFORMATION

The information in this section is included in accordance with the requirements of Schedule 1 to the Securities Regulations.

## 12.1 Main Terms of Offer

The issuers of the Offer Shares for the purposes of the Securities Act are Fliway Group Limited and the Selling Shareholders. Fliway's registered office and the address of the Selling Shareholders are set out in the Directory.

**Offer Shares**

The securities being offered under the Offer are fully paid ordinary shares in the Company, comprising both the Existing Shares held by the Selling Shareholders and New Shares to be issued by Fliway. A summary of the Shares being offered is set out in Section 10 *Details of the Offer*.

There is no maximum number of Offer Shares being offered under the Offer. However, indicatively, the maximum number of Offer Shares is 31.8 million, based on the Selling Shareholders selling a maximum of 25.3 million Existing Shares and Fliway raising $9.0 million at a price of $1.20 (being the bottom of the Indicative Price Range).

The Offer Price is expected to be announced and posted on the Fliway Offer website www.fliwayoffer.co.nz on or about 18 March 2015. Information about how the Offer Price will be determined is set out under the heading "Pricing of the Offer" in Section 10.1 *The Offer*.

The Offer Price for the Offer Shares under the Offer is payable in full upon Application.

## 12.2 Name and address of offeror

Duncan John Hawkesby and Gretchen Sarah Hawkesby, as the Selling Shareholders, are together the offeror of the Existing Shares under the Offer. The Selling Shareholders' address is set out in the Directory.

The net amount of the consideration received by Fliway in respect of the original allotment of the Existing Shares was $100. Fliway will not receive any further consideration in connection with the allotment of the Existing Shares under the Offer.

## 12.3 Details of incorporation of issuer

Fliway was incorporated in New Zealand on 2 October 2006 under the Companies Act. Fliway's registration number is 1870504.

The public register relating to Fliway is available for inspection on the Companies Office website at www.business.govt.nz/companies.

## 12.4 Principal subsidiaries of issuer

As at the date of this Prospectus, Fliway has the following subsidiaries, each of which is 100% owned by a member of the Group:

- Fliway Holdings Limited;
- Fliway Transport Limited;
- Fliway Logistics Limited; and
- Fliway International Limited.

Fliway also has a 50% shareholding in United Parcel Service – Fliway (NZ) Limited.

## 12.5 Names, addresses and other information

**Directors**

The Directors of Fliway, and their principal residences, at the date of this Prospectus are Craig Hamilton Stobo (Chairman) (Auckland, New Zealand), Duncan John Hawkesby (Executive Director) (Auckland, New Zealand), and Alan Raymond Isaac (Non-executive Director) (Wellington, New Zealand).

The Directors can be contacted via Fliway at its registered office set out in the Directory.

Duncan Hawkesby is the only Director who is also an employee of Fliway. He is also a director of each of the Group Companies. Duncan is Fliway's Managing Director.

**No bankruptcy or insolvency**

None of Fliway, the Directors of Fliway, or the Selling Shareholders have been adjudged bankrupt or insolvent, convicted of a crime involving dishonesty, prohibited from acting as a director of a company, or placed in statutory management, voluntary administration, liquidation or receivership during the five year period preceding the date of this Prospectus.

**Auditor**

The auditor of Fliway is Deloitte. The contact address of the Auditor is set out in the Directory.

**Share Registrar**

Fliway's share registrar is Link Market Services. The contact address of the Share Registrar is set out in the Directory.

**Advisers**

The names and addresses of each of the financial advisers to Fliway, the solicitors and other professional advisers who have been involved in the preparation of this Prospectus are set out in the Directory.

**Experts**

The Investigating Accountant's Report is set out in Section 9 *Financial Information*.

Deloitte, Chartered Accountants, has given and not withdrawn its consent, before the delivery of this Prospectus for registration under section 41 of the Securities Act, to the distribution of this Prospectus with the inclusion of the Investigating Accountants' Report in this Prospectus in the form and context in which it is included.

The registered address of Deloitte is set out in the Directory.

Neither Deloitte nor any director, officer or employee of it, is or is intended to be, a director, officer or employee of Fliway. However, Deloitte has provided, and may in the future provide, professional advisory services to the Group.

## 12.6 Restrictions on Directors' powers

The Constitution incorporates by reference the requirements of the NZX Main Board Listing Rules and requires Fliway to comply with the NZX Main Board Listing Rules once it is Listed.

The principal restrictions on the powers of the Board imposed by the Constitution (including the requirements of the NZX Main Board Listing Rules incorporated into the Constitution) are as follows:

- Fliway may not issue or acquire any equity securities in Fliway except in accordance with the provisions of the Companies Act, Constitution and the NZX Main Board Listing Rules;
- Fliway may not give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by Fliway, except in accordance with the provisions of the Companies Act, Constitution and the NZX Main Board Listing Rules;
- the Board may not cause Fliway to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Fliway which would change the essential nature of the business of Fliway or in respect of which the gross value is in excess of 50% of the average market capitalisation of Fliway, without the prior approval of an ordinary resolution of Shareholders in accordance with the Constitution and the NZX Main Board Listing Rules; and
- the Board may not allow Fliway to enter into certain material transactions if a related party of Fliway is, or is likely to become, a direct or indirect party to the material transaction without the prior approval of an ordinary resolution of disinterested Shareholders in accordance with the Constitution and the NZX Main Board Listing Rules.

In addition, a Director may not vote on any matter in which he or she is interested, unless permitted by the Companies Act and NZX Main Board Listing Rules, where he or she has complied with the relevant provisions and signed a certificate in respect of the matter.

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the Board. For example, Directors cannot allow Fliway to:

- enter into a major transaction (as that term is defined in the Companies Act) without the prior approval of a special resolution of Shareholders; and

- take any action which affects the rights attaching to Shares without the prior approval of a special resolution of each interest group (being a group of Shareholders with similar or identical rights).

These provisions apply to any company registered under the Companies Act.

## 12.7 Substantial equity security holders of issuer

The Shareholders of Fliway on the date of this Prospectus are Duncan John Hawkesby and Gretchen Sarah Hawkesby (as trustees of The D & G Hawkesby Trust). Duncan John Hawkesby and Gretchen Sarah Hawkesby are, together, the legal and beneficial owners of 102 Shares in the Company (prior to the Share split).

Neither Duncan John Hawkesby nor Gretchen Sarah Hawkesby guarantees, or undertakes, any liability in respect of, the Shares.

## 12.8 Description of activities of issuing group

A description of the business activities of the Group is contained in Section 6 *Business Description*.

**Principal Assets**

Fliway's principal assets are the equipment which is necessary for the transportation and storage of freight around New Zealand, including trucks, vans, freight handling equipment and office equipment. These assets are predominantly owned by Fliway, although some are leased. Some of these assets are subject to obligations in favour of other persons that modify or restrict Fliway's ability to deal with them.

In addition, Fliway leases a number of storage warehouses throughout New Zealand which are necessary for the conduct of its business. The terms of these leases impose certain restrictions on Fliway's ability to deal with these assets.

## 12.9 Summary Financial Statements

Summary financial statements for each of the five consecutive financial periods preceding 30 June 2014 and unaudited interim financial statements for the six months to 31 December 2014 are set out in Appendix 1 *Summary Historical Financial Statements*.

## 12.10 Prospects and Forecasts

A statement as to the trading prospects of Fliway, together with any material information that may be relevant to those prospects, is set out in Section 9 *Financial Information*. Supporting information material to these prospects and forecasts is set out in the general assumptions and specific assumptions in that section.

Any special trade factors and risks which could materially affect the prospects of Fliway and which are not likely to be known or anticipated by the general public are set out in Section 8 *What Are My Risks?*.

It is not the purpose of the Offer to provide finance for any particular capital project.

## 12.11 Provisions Relating to Initial Flotation's and Minimum Subscriptions

**Plans of Directors**

The plans of the Directors in respect of Fliway during the 12 month period commencing on the date of this Prospectus are to:

- carry out the Offer; and
- thereafter to carry on the business operated by the Group, as described in Section 6 *Business Description*.

The sources of funds required for these plans will be, in relation to the Offer, the funds received from the issue of the New Shares pursuant to the Offer. The funds for general business operations will be the operating cash flows, working capital and, if required, any borrowings or other financial accommodation considered prudent and appropriate by Fliway during that year, including under the Bank Facilities.

The use of proceeds of the Offer are described under the heading "Purpose of the Offer and use of proceeds" in Section 10.1 *The Offer*. Notwithstanding the plans of the Directors, the proceeds from the Offer may be applied towards any other purpose.

**Prospective statement of financial position, financial performance and cash flows**

A prospective statement of financial position, a prospective statement of comprehensive income, a prospective statement of changes in equity, and a prospective statement of cash flows of the Group for the accounting period ending 30 June 2015 and the interim accounting period ending 31 December 2015 are set out in Section 9 *Financial Information*.

**Minimum amount**

For the purposes of section 37(2) of the Securities Act, the minimum amount that, in the opinion of the Directors, must be raised in order to provide the sums required to be provided in respect of:

(a) the purchase price of any property that is to be met in whole or in part out of the proceeds of the Offer;

(b) any preliminary expenses or commissions payable by Fliway;

(c) working capital; and

(d) the repayment of any money borrowed in respect of the above,

is $9.0 million.

## 12.12 Acquisition of business or subsidiary

Not applicable.

## 12.13 Securities paid up otherwise than in cash

Two Shares were issued in March 2010 to the Selling Shareholders for nil consideration and pursuant to a taxable bonus issue.

Other than as noted above, Fliway has not allotted to any person any securities paid up otherwise than in cash within the last five years preceding the date of this Prospectus.

## 12.14 Options to subscribe for securities of the issuing group

Not applicable.

## 12.15 Appointment and removal of directors

On the Listing Date, Fliway will be a party to a listing agreement with NZX (a licensed market operator) and, except as set out below, the method by which Directors of Fliway may be appointed to, or be removed from, or otherwise vacate, office is the same as that set out in the NZX Main Board Listing Rules. No person (other than the Shareholders of Fliway in a general meeting or the Directors acting as a Board to fill a casual vacancy) has the right to appoint any Director.

Each Director has the power to appoint any person as an alternate Director, provided that person has not been disqualified under the Companies Act from holding the position of a director of a company, and provided that person is approved by a majority of the other Directors.

## 12.16 Interested persons

For the purposes of the information set out under this heading, “specified person” means a Director or proposed director of Fliway or an Associated Person of them, as well as each of the Selling Shareholders or an Associated Person of them.

Fliway has granted indemnities in favour of its Directors and officers to the fullest extent permitted by the Companies Act and the Securities Act. Fliway also maintains insurance for its Directors and officers to the extent permitted by the Companies Act and the Securities Act, including insurance cover effected for potential liability as a result of any claim or proceedings brought or threatened against the Directors in respect of the Offer.

Subject to the Companies Act, the Constitution and the NZX Main Board Listing Rules, the Board may, without limit, authorise special remuneration to any Director who is or has been engaged by Fliway to carry out any work or perform any service otherwise than in their capacity as a director of any Group Company and in such amounts as the Board may determine.

Each Director is entitled, without limit, to be paid for all reasonable travelling, accommodation and other expenses incurred by the Director in connection with the Director’s attendance at meetings or otherwise in connection with Fliway’s business.

In connection with the Offer and the Company’s preparation for Listing, the non-executive Directors are also each entitled to recover a daily expenses fee of $1,500 per day (based on an 8 hour day) up to a total amount of $30,000 each.

The following additional disclosure is made in respect of the following specified persons:

- Duncan John Hawkesby is an Executive Director of Fliway and a Director of each of the Group Companies. He is employed by Fliway as the Managing Director and receives remuneration for services performed in that role;
- on 6 October 2006, Duncan John Hawkesby entered into a loan agreement with Fliway (the **DH Loan**). As at the date of this Prospectus, Fliway owes Duncan Hawkesby a total amount of $2.236 million under the DH Loan. This amount will be repaid in full by Fliway using the proceeds of the Offer;

- the Selling Shareholders have advanced Fliway an amount of $0.533 million which remains outstanding and payable by Fliway as at the date of this Prospectus (the **Selling Shareholder Loan**). The Selling Shareholder Loan will be repaid in full using the proceeds of the Offer; and
- as at the date of this Prospectus, the Selling Shareholders have a direct material interest in the Shares. The Selling Shareholders will continue to have a material interest in Fliway following the Offer. Particulars of the shareholdings in Fliway, both prior to and following the Offer, are set out in Section 10.2 *Shareholding structure – before and after the Offer*.

None of the persons named above guarantees, or undertakes, any liability in respect of the Offer Shares.

Except as set out above and in Section 12.17 *Material contracts* below, no specified person has, or has had at any time during the five years preceding the date of this Prospectus, any direct or indirect material interest in Fliway, or in any contract or arrangement entered into on behalf or in respect of Fliway, that is material to either or both of the person(s) who has the interest and Fliway.

## 12.17 Material contracts

Fliway has entered into the following material contracts in the previous two years (not being contracts entered into in the ordinary course of business):

**Escrow Deed**

Fliway and the Selling Shareholders have entered into an Escrow Deed dated 5 March 2015. Under the terms of the Escrow Deed, the Selling Shareholders have agreed not to sell, transfer or otherwise dispose of any Shares, subject to certain exceptions set out in the Escrow Deed, until Fliway's preliminary announcement of its results for the six month period ending 31 December 2015 has been released.

Further details in respect of the escrow arrangements, including the agreed exceptions to these arrangements, are set out in Section 10.9 *Escrow arrangements.*

**Indemnity and Insurance**

Fliway has entered into a deed of indemnity and insurance by deed poll dated 26 February 2015 (**Indemnity**). Under the Indemnity, Fliway must indemnify its past, present and future directors and certain employees (including directors and certain employees of the other Group Companies) (each an **Indemnified Person**) against:

- the Indemnified Person's costs incurred in any proceeding that relates to liability as a director, officer or employee of a Group Company, but only if judgment is given in the Indemnified Person's favour, or in which the Indemnified Person is acquitted, or if the proceeding is discontinued; and
- liability (other than criminal liability or liability arising out of wilful default or fraud, or liability in respect of a breach, in the case of a director, of the duty specified in section 131 of the Companies Act or, in the case of an employee, of any fiduciary duty owed to a Group Company) to any third party for acts or omissions as a director, officer or employee of a Group Company, and against the Indemnified Person's costs in defending or settling any related proceeding.

Under the Indemnity, Fliway must also effect insurance cover with a reputable insurer for the Indemnified Persons, in respect of:

- any liability, not being criminal liability, for any act done or omission made by that Indemnified Person in that capacity;
- costs incurred in defending or settling any claim or proceeding referred to above; and

- costs incurred in defending criminal proceedings in which the Indemnified Person is acquitted.

The insurance must cover Indemnified Persons for seven years from the date that they have resigned or ceased to hold office at Fliway or a subsidiary and be on terms no less favourable in any material respect than the insurance policy in place at the date they ceased to hold office at Fliway or a subsidiary. If the Indemnified Person has an insurance policy that expressly covers his or her liability as a director or employee of Fliway (or a subsidiary of Fliway), the Indemnified Person must make a claim under that policy for any liability that the Indemnified Person may be able to claim under the Indemnity.

The Indemnity excludes certain claims, such as claims resulting from liability for which an indemnity is prohibited by law. Fliway must also not effect insurance for liability and costs not permitted by the Companies Act and Securities Act.

**Indemnity from Selling Shareholders**

The Selling Shareholders have entered into a deed of indemnity in favour of Fliway (the **Selling Shareholder Indemnity**) dated 5 March 2015. Under the Selling Shareholder Indemnity, the Selling Shareholders have agreed to indemnify Fliway against any loss of earnings as a result of a third party claim relating to an event that occurred before allotment of Shares under the Offer. However, claims against Fliway that arise in the ordinary course of its day-to-day activities as a result of the loss or damage to goods or inventory are excluded from the Selling Shareholder Indemnity. A claim is also excluded to the extent Fliway recovers proceeds under its insurance policies. Fliway must not make a claim under the Selling Shareholder Indemnity unless the amount of the claim exceeds $250,000. The Selling Shareholders' liability under the Selling Shareholder Indemnity is limited to an aggregate maximum amount that reduces over time on the basis set out below:

| Period in which notice of claim is given by Fliway | Aggregate Maximum Amount (NZ$) |
|---|---|
| Before or on 8 April 2016 | 4,000,000 |
| 9 April 2016 – 8 April 2017 | 3,000,000 |
| 9 April 2017 – 8 April 2018 | 2,000,000 |
| 9 April 2018 – 8 April 2019 | 1,000,000 |
| 9 April 2019 to 8 April 2020 | 500,000 |
| After 4 pm on 8 April 2020 | 0 |

The Selling Shareholders have agreed to obtain a standby letter of credit from ANZ Bank New Zealand Limited in favour of Fliway to support the performance of their obligations under the Selling Shareholder Indemnity.

The Selling Shareholder Indemnity will terminate if Fliway ceases to be listed on the NZX Main Board as a result of:

- a person or group of associated persons exercising compulsory acquisition rights and acquiring ownership of all of Fliway's Shares;
- the implementation of a scheme of arrangement under which Fliway is not the surviving entity; or
- any other similar control transaction.

## 12.18 Pending proceedings

A former customer of Fliway has claimed that it was overcharged by Fliway for warehouse storage services for the period from July 2008 to August 2012. The total amount of the former customer's claim is $778,872 plus interest of $206,943 as at 2 October 2014. Fliway denies the claim and says that its charges were agreed with the former customer and were willingly paid by it at the time. The former customer has indicated its intention to pursue a claim under the dispute resolution terms of its contracts with Fliway which provide for mediation and / or arbitration. Fliway intends to defend the claim.

Fliway considers that the Selling Shareholder Indemnity is likely to cover any costs and liability that it may incur as a result of this claim by this former customer. The claim is not therefore expected to have any adverse financial effect on Fliway.

Other than this claim by a former customer, there are no other threatened or pending legal proceedings that may have a material adverse effect on Fliway.

## 12.19 Preliminary and issue expenses

Issue expenses (including brokerage, commissions, management fees, share registry expenses, legal fees, investment advisory fees, accounting fees, advertising costs, printing costs and postage and courier costs relating to this Offer) are estimated to amount to an aggregate of $3.0 million assuming $35.4 million is raised under the Offer. The Company will pay all costs associated with the Offer except for brokerage of 1.5% on the Existing Shares offered by the Selling Shareholders under the Offer, which will be paid or reimbursed by the Selling Shareholders.

**Brokerage**

NZX Firms and Brokers will be paid a brokerage fee of up to 1.5% of the gross proceeds in respect of Offer Shares allotted pursuant to valid Applications for a Firm Allocation in the Broker Firm Offer. This brokerage fee will be payable by the Arranger and Lead Manager out of proceeds of the fees detailed below. No brokerage will be payable on Applications received under the Broker Firm Offer that do not bear an NZX Firm or Broker stamp.

**Arranger and Lead Manager**

Under the terms of the Arranger and Lead Manager's engagement letter, Fliway has agreed to pay the Arranger and Lead Manager up to 4% of the gross proceeds of the Offer. From its fees, the Arranger and Lead Manager will pay firm allocation commissions of 0.50% and retail brokerage of 1.0% on retail allocations bearing broker's stamps pursuant to a firm allocation under the Broker Firm Offer.

## 12.20 Restrictions on issuing group

Under the Banking Facilities, each of Fliway and its subsidiaries has agreed to a number of covenants which restrict its ability to take certain actions, including, but not limited to, the following:

- **Negative pledge**: security interests can only be granted in favour of ANZ subject to certain agreed exceptions;
- **Change of business**: stopping, or threatening to stop, carrying on all or a material part of a company's business is prohibited;

- **Maintenance of capital**: providing financial assistance (as defined in the Companies Act), reducing share capital and making calls on uncalled share capital are prohibited without the consent of ANZ; and

- **Major transactions**: entering into a major transaction (as defined in the Companies Act) is prohibited without ANZ's consent.

For further discussion of the terms of the Banking Facilities, see note 9 "Financing", in Section 9.4 *Prospective financial information*.

## 12.21 Other terms of offer and securities

All of the terms of the Offer and all of the terms of the Shares are set out in this Prospectus and the Investment Statement, other than any terms implied by law or any terms set out in a document that has been registered with a public official, and is available for public inspection and is referred to in this Prospectus.

## 12.22 Financial statements

Fliway has prepared financial statements for the period ended 30 June 2014 which are set out in Appendix 2 *Audited financial statements for the year ended 30 June 2014*. Further information in respect of the financial statements of the Group is contained in Section 9 *Financial Information*.

## 12.23 Additional unaudited interim financial statements

Unaudited interim financial statements for the Group for the six month period to 31 December 2014 are set out in Appendix 3 *Unaudited Interim Financial Statements for the six month period ended 31 December 2014*.

Statements as to material changes in matters contained in the unaudited interim financial statements for the six month period to 31 December 2014 from the matters contained in the financial statements for FY14 are set out in Section 9 *Financial Information*.

No transactions that were material related party transactions under generally accepted accounting practice were entered into or were performed in the six month period to 31 December 2014.

## 12.24 Places of inspection of documents

The Constitution and copies of the latest financial statements for the Group and the material contracts referred to in Section 12.17 *Material contracts* may be inspected (without charge) until the Closing Date during normal business hours at the registered office of Fliway as set out in the Directory.

Copies of those documents are also available for public inspection on the Companies Office website at www.business.govt.nz/companies.

## 12.25 Other material matters

There are no material matters relating to the Offer, other than those set out in this Prospectus, the financial statements or in contracts entered into in the ordinary course of business of a member of the Group.

## 12.26 Directors' statement

The Directors of Fliway, after due inquiry by them, are of the opinion that none of the following has materially and adversely changed during the period between 31 December 2014 and the date of registration of this Prospectus:

- the trading or profitability of the Group;
- the value of the Group's assets; or
- the ability of the Group to pay its liabilities due within the next 12 months.

## 12.27 Auditor's report

The Auditor's report required by clause 28 of Schedule 1 to the Securities Regulations is set out in Section 9 *Financial Information* under the heading "Statutory Auditor's Report".

**Signatures required by the Securities Act**

A copy of this Prospectus has been signed by the Directors of Fliway and the Selling Shareholders.

**Signed by each Director of Fliway Group Limited**

Duncan John Hawkesby

Craig Hamilton Stobo

Alan Raymond Isaac

**Signed by the Selling Shareholders**

Duncan John Hawkesby
(in his capacity as Trustee of The D & G Hawkesby Trust)

Gretchen Sarah Hawkesby
(in her capacity as Trustee of The D & G Hawkesby Trust)

# 13. GLOSSARY

| | |
|---|---|
| **1H** | Is a reference to the first half of Fliway's financial year (i.e., the six month period ended or ending on 31 December). For example, "1H15" means the six month period ending on 31 December 2014. |
| **Allotment Date** | 8 April 2015, unless brought forward or extended by Fliway. |
| **Applicant** | An investor who makes an Application for Offer Shares under the Offer. |
| **Application** | An application to subscribe for Offer Shares offered under the Offer. |
| **Application Form** | An application form to subscribe for Offer Shares under the Broker Firm Offer included in or accompanying the Investment Statement. |
| **Application Monies** | The amount payable on Application. |
| **Arranger and Lead Manager** | Forsyth Barr Limited. |
| **Associated Person** | As that term is defined in the NZX Main Board Listing Rules. |
| **Auditor** | Deloitte. |
| **Banking Facilities** | The multi-company facility agreement dated 5 December 2014 between ANZ Bank New Zealand Limited, as lender, Fliway Group Limited and Fliway Transport Limited, as borrowers, and Fliway International Limited and Fliway Holdings Limited, as covenantors. |
| **Board** or **Board of Directors** | The board of Directors of Fliway. |
| **Bookbuild** | The process to determine the price at which Offer Shares will be offered under the Offer based on the demand for Offer Shares by Institutional Investors. |
| **Broker** | Any company, firm, organisation or corporation designated as a market participant by NZX. |
| **Broker Firm Offer** | The offer of Offer Shares under this Prospectus to New Zealand resident Retail Investors to apply for an allocation of Offer Shares from an NZX Firm that has received a Firm Allocation. |
| **Business Day** | A day on which the NZX Main Board is open for trading. |
| **CAGR** | The compound annual growth rate, which is the rate at which something (for example, revenue) grows over a period of years, taking into account the effect of annual compounding. Unless otherwise stated, CAGR calculations are based on nominal values. |
| **Closing Date** | 1 April 2015. |
| **Company** | Fliway Group Limited. |
| **Consignment** | The delivery of goods from a consignor (the sender who is supplying the goods) |

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|---|---|
| | to a consignee (the receiver who is taking delivery of the goods). |
| **Constitution** | The constitution of the Company. |
| **CSN** | Common Shareholder Number. |
| **Customs** | The government authorities designated to collect duties levied by a country on imports and exports. |
| **DH Loan** | The unsecured loan of $2.236 million given by Duncan John Hawkesby to Fliway Group pursuant to a loan agreement dated 6 October 2006. |
| **Director** | A director of the Company. |
| **Directory** | The directory set out on the final page of this Prospectus. |
| **EBIT** | Earnings before net finance expense and tax, and includes contribution from UPS-Fliway. |
| **EBITDA** | Earnings before net finance expense, tax, depreciation of tangible assets and amortisation of intangibles, and includes contribution from UPS-Fliway. |
| **Escrow Deed** | The Escrow Deed between Selling Shareholders and Fliway dated 5 March 2015 as more fully described under the heading Material Contracts in Section 12 *Statutory Information*. |
| **Existing Shares** | The 102 Shares legally and beneficially owned by the Selling Shareholders as at the date of this Prospectus, which will be subdivided into a higher number of Shares pursuant to the Share split after the Bookbuild described in Section 10.2 *Shareholding structure – before and after the Offer*. |
| **F** | The inclusion of **F** after a reference to a financial period is an indication that it is a forecast period. For example, "FY15F" means the financial year ending on 30 June 2015, which is a forecast period. |
| **Firm Allocation** | Offer Shares reserved for subscription by clients of the Arranger and Lead Manager, NZX Firms, Brokers and Institutional Investors as determined by Fliway. |
| **Fliway** | As the context requires, either Fliway Group Limited or the business carried on by the Fliway Group Companies. |
| **Fliway Domestic** or **Domestic** | A business division of Fliway which contains the Fliway Transport and Fliway Logistics business units. |
| **Fliway Holdings** | Fliway Holdings Limited. |
| **Fliway International** or **International** | A business division of Fliway which provides transportation and border clearance for international freight. |
| **Fliway Logistics** | A business unit of Fliway's domestic division which provides warehousing and distribution services. |
| **Fliway Transport** | A business unit of Fliway's domestic division which transports freight nationwide. |
| **Freight Forwarding** | Facilitating international or domestic transport of goods for compensation. At the request of the shipper, a freight forwarder makes the arrangements and |

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|---|---|
| | provides services for transporting the goods to their destination. |
| **FY** | Refers to “financial year”. Fliway’s balance date is 30 June so, for example, “FY12” or “FY2012” means the financial year ended on 30 June 2012. |
| **GAAP** | Generally Accepted Accounting Principles. |
| **GDP** | Gross Domestic Product as defined by Statistics New Zealand. |
| **Glossary** | This glossary of key terms. |
| **Group Companies** | Fliway Group Limited, Fliway Holdings Limited, Fliway Transport Limited, Fliway International Limited, Fliway Logistics Limited and **Group** means all of them. |
| **GST** | Goods and Services Tax. |
| **Indicative Price Range** | $1.20 to $1.40 per Offer Share. |
| **Institutional Investor** | An investor to whom offers in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which Fliway is willing to comply with), including in New Zealand a person to whom offers or invitations can be made without those offers or invitations being a “regulated offer” under the Financial Markets Conduct Act. |
| **Institutional Offer** | The invitation to Institutional Investors under this Prospectus, as described in Section 10 *Details of the Offer*. |
| **Integrated platform** | The way in which the Company describes the correlation between the various facets of the business. |
| **Investigating Accountant** | Deloitte. |
| **Investment Statement** | The Investment Statement prepared in connection with the Offer dated 6 March 2015. |
| **Joint Venture Agreement** | The joint venture contract between Fliway Transport Limited and United Parcel Service International Forwarding Inc. dated 22 January 1998. |
| **Just in time** | Just in time (**JIT**) inventory management system in which materials or products are procured or acquired as demand requires. |
| **Line-Haul** | Refers to the transport of domestic freight inter-city. |
| **Listing Date** and **Listing** | The date on which Fliway is listed, and the Shares quoted, on the NZX Main Board (or on market in substitution for that market) in force from time to time. |
| **Metro** | Refers to Fliway’s fleet of smaller vehicles which typically deliver smaller consignments. |
| **New Shares** | The 6.5 million to 7.5 million new Shares being offered by Fliway under the Offer. |
| **NZD, NZ$ or $** | New Zealand Dollars. |
| **NZX** | NZX Limited. |

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| **NZX Firm** | Any company, firm, organisation or corporation designated or approved as a Primary Market Participant from time to time by NZX, see www.NZX.com/investing/find_a_participant for a current list of such participants. |
| **NZX Main Board** | The main board equity security market operated by NZX. |
| **Offer** | The offer of Offer Shares under this Prospectus to Retail Investors in New Zealand and Institutional Investors in New Zealand and Australia. |
| **Offer Price** | The price per Share at which the Offer Shares will be issued and sold under the Offer, to be determined on or about 17 March 2015. |
| **Offer Shares** | The New Shares and up to 25.3 million Existing Shares being offered under the Offer. |
| **PFI** | Means the forecast financial information prepared in respect of the period from 1 January 2015 to 31 December 2015. |
| **Pro Forma** | Refers to financial information being presented on a pro forma basis. An explanation of Fliway's use of pro forma financial information is set out in Section 2 *Offer at a Glance* under the heading "Fliway's financial information" and in Section 9.3 *Reconciliation of non-GAAP financial information* under the heading "Explanations of Pro Forma adjustments". |
| **Prospectus** | This prospectus prepared in connection with the Offer dated 6 March 2015 (as amended on 19 March 2015). |
| **Retail Investors** | Applicants who are not Institutional Investors. |
| **Selling Shareholders** | Duncan John Hawkesby and Gretchen Sarah Hawkesby (as trustees of The D & G Hawkesby Trust). |
| **Selling Shareholder Loan** | The unsecured loan of $0.533 million given by the Selling Shareholders to Fliway Group. |
| **Share** | A fully paid ordinary share in the Company. |
| **Shareholder** | A holder of one or more Shares. |
| **Shareholder Loans** | The DH Loan and the Selling Shareholder Loan. |
| **Share Registrar** | Link Market Services. |
| **UPS** | United Parcel Services. |
| **UPS-Fliway** | United Parcel Service - Fliway (NZ) Limited, the 50/50 joint venture between Fliway and UPS. |

**ADDITIONAL DEFINITIONS FOR THE KEY OFFER STATISTICS AND KEY INVESTMENT METRICS**

**Indicative market capitalisation**

The number of Shares on issue following the Offer multiplied by the Offer Price.

**Net debt on completion of the Offer**

The forecast value of cash and cash equivalents less current and non-current borrowings at Allotment Date.

**Indicative enterprise value (EV)**

The implied market capitalisation plus Prospective Net Debt as at completion of the Offer.

**EV / EBITDA**

EV divided by EBITDA for the respective forecast financial year. This is a valuation metric that enables comparison with industry competitors and stock market peers.

**EV / EBIT**

EV divided by EBIT for the respective forecast financial year. This is a valuation metric that enables comparison with industry competitors and stock market peers

**Market capitalisation / NPAT**

Market capitalisation divided by NPAT for the respective forecast financial year. This is a valuation metric that enables comparison with industry competitors and stock market peers.

**Cash dividend yield**

Dividends per Share for the respective prospective financial year divided by the Offer Price. Based on the cash cost to Fliway, not necessarily the cash received by investors which will depend on individual investor tax rates and the assumption that the investor holds Shares over the full year.

**Gross dividend yield**

Dividends per Share for the respective prospective financial year, grossed up for imputation credits expected to be attached to the dividend (calculated at a tax rate of 28%) divided by the Offer Price. This metric is used to approximate the return to the average investor on a pre-tax basis.

# APPENDIX 1: SUMMARY HISTORICAL FINANCIAL STATEMENTS

Summary financial statements for Fliway Group, as required by clauses 9(1)(a) and (b) of Schedule 1 of the Securities Regulations, are set out below.

The summary financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars ($000).

The summary financial statements comply with FRS-43 Summary Financial Statements, subject to the Securities Regulations, whereby the summary financial statements are not required to include:

- a comparison of, and explanations for, major variances between, prospective and historical financial statements;
- information about events occurring after the balance date of a period; or
- comparative information for any period before the earliest period presented in the summary financial statements.

The summary financial statements have been authorised for issue by a resolution of the Board of Directors dated 5 March 2015. The Board has authorised the issue of the full financial statements on the following dates:

- Year ended 30 June 2014: 10 November 2014
- Year ended 30 June 2013: 4 September 2013
- Year ended 30 June 2012: 3 September 2012
- Year ended 31 July 2011: 7 September 2011
- Year ended 31 July 2010: 21 September 2010

The financial information has been extracted from audited financial statements that have been prepared in accordance with NZ GAAP subject to the following additional disclosures:

- The revenue and disbursement costs were restated from the 2010 financial statements. See note 1 to the 5 Year Summary Consolidated Statements of Comprehensive Income on page 11.
- The audited financial statements for the years ended 30 June 2010, 2011, 2012 and 2013 did not contain a statement of cash flows as this was not required due to the framework for differential reporting being applied. The audited financial statements for the year ended 30 June 2014 included a statement of cash flows for the year ended 30 June 2014 and the comparative statement of cash flows for the year ended 30 June 2013.
- Financial information in the summary financial statements are presented on a consolidated group basis.
- The financial statements for the year ended 30 June 2014 have been prepared in accordance with NZ GAAP. They comply with NZ IFRS and other applicable New Zealand financial reporting standards as appropriate for profit-oriented entities. The financial statements for the year ended 30 June 2014 also comply with IFRS.
- The financial statements for the years ended 30 June 2010, 2011, 2012 and 2013 have been prepared in accordance with NZ GAAP and comply with NZ IFRS and other financial reporting standards as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions. The Group is a profit-oriented entity.

- In the financial year ended 30 June 2014, the Group elected to report in accordance with full NZ IFRS and will therefore no longer apply the exemptions available under the Framework for Differential Reporting. The date of transition to NZ IFRS was 1 July 2012. The Group had chosen to report in accordance with NZ IFRS due to the anticipated initial public offering, which would result in the Group becoming a publicly accountable entity. Entities with public accountability are required to report under Tier 1 (NZ IFRS) in accordance with the External Reporting Board Standard A1 "Accounting Standards Framework (For-Profit Entities Update)" (XRB A1). As a result of the transition, the Group applied requirements under NZ IFRS 1 First-time Adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS 1). Prior to transition to full NZ IFRS, the Group adopted all differential reporting exemptions except for:

    - the exemption under NZ IAS 12 Income Taxes allowing the use of the tax payable method to account for income taxes;
    - the exemption under NZ IAS 21 The Effects of Changes in Foreign Exchange Rates allowing the measurement of transactions in foreign currencies at the settlement rate; and
    - the exemption under NZ IAS 18 Revenue allowing the recording of revenue and expenses inclusive of GST.

    Exemptions that are no longer available to the Group as a result of the transition, and which will have the most material impact are:

    - the exemption under NZ IAS 7 Statement of Cash Flows which exempts qualifying entities from preparing a statement of cash flows. The Group has prepared a statement of cash flows for the year ended 30 June 2014 including 30 June 2013 comparatives; and
    - the exemption under NZ IAS 36 Impairment of Assets allowing qualifying entities to assess goodwill and intangible assets with indefinite useful lives for indications of impairment annually rather than testing for impairment annually and whenever an indication of impairment exists. The Group has tested goodwill for impairment at 30 June 2013 and 30 June 2014.

- The adoption of NZ IFRS had no impact on the Group's statement of financial position as at 1 July 2012 and as at 30 June 2013, and on the Group's statement of comprehensive income for the year ended 30 June 2013.

The summary financial statements do not include all disclosures provided in the full financial statements and cannot be expected to provide as complete an understanding as that provided by the full financial statements. The audited financial statements for the year ended 30 June 2014 are included in Appendix 2 *Audited financial statements for the year ended 30 June 2014*. The financial statements for the years ended 30 June 2010, 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014 were audited by Deloitte and all received unmodified and unqualified opinions.

The unaudited interim financial statements for the six months ended 31 December 2014 are included in Appendix 3 *Unaudited Interim Financial Statements for the six month period ended 31 December 2014.*

# 5 Year Summary Consolidated Statements of Comprehensive Income

**5 YEAR SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| $'000 | FY10 (audited) | FY11 (audited) | FY12 (audited) | FY13 (audited) | FY14 (audited) | 1H15 (unaudited) |
|---|---|---|---|---|---|---|
| Revenue from operating activities | 61,710 1 | 70,973 | 73,197 | 74,391 | 81,511 | 44,371 |
| **Total operating revenue** | **61,710** | **70,973** | **73,197** | **74,391** | **81,511** | **44,371** |
| Disbursement costs | (11,663) | (17,073) | (18,567) | (19,121) | (22,490) | (11,903) |
| Freight costs | (4,194) | (3,594) | (4,500) | (4,562) | (3,781) | (2,770) |
| Depreciation and amortisation | (1,868) | (1,686) | (1,456) | (1,302) | (1,445) | (871) |
| Operating and leasing charges | (6,431) | (6,514) | (6,340) | (6,401) | (6,717) | (3,628) |
| Share of joint venture (UPS-Fliway) net surplus | 360 | 597 | 791 | 974 | 925 | 602 |
| Personnel costs | (21,347) | (23,908) | (24,184) | (25,064) | (27,497) | (14,788) |
| Vehicle expenses | (5,912) | (6,849) | (6,669) | (6,732) | (7,099) | (3,544) |
| Net gain on fair value of derivative instruments | 786 | 388 | 76 | (152) | 89 | (162) |
| Other operating expenses | (5,466) | (6,378) | (5,978) | (6,851) | (6,451) | (3,644) |
| Other income | - | 273 | 19 | - | - | - |
| **Operating profit before financing costs** | **5,975** | **6,229** | **6,389** | **5,180** | **7,046** | **3,663** |
| Interest received | 18 | 12 | 29 | 108 | 197 | 69 |
| Interest paid | (2,244) | (1,618) | (1,040) | (902) | (938) | (540) |
| **Net financing costs** | **(2,226)** | **(1,606)** | **(1,011)** | **(794)** | **(741)** | **(472)** |
| **Profit before taxation** | **3,749** | **4,623** | **5,378** | **4,386** | **6,306** | **3,191** |
| Taxation expense | (1,022) | (1,244) | (1,313) | (989) | (1,520) | (771) |
| **Net profit and total comprehensive income for the year** | **2,727** | **3,379** | **4,065** | **3,397** | **4,786** | **2,420** |

1. This balance was restated from the 2010 signed financial statements. The Group reassessed the presentation of revenue in the financial statements with regard to NZ IAS 18 Revenue. The Group were of the opinion that it was more appropriate and relevant to present revenue gross of disbursement costs as opposed to the historic treatment of presenting revenue net of these costs. All historic periods included in the summary present revenue gross of disbursement costs.

## 5 Year Summary Consolidated Statements of Changes in Equity

**5 YEAR SUMMARY CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

| $'000 | Issued capital (audited) | Retained earnings (audited) | Total (audited) |
|---|---|---|---|
| **FY10** | | | |
| Balance as at 1 July 2009 | 5,000 | 970 | 5,970 |
| Total comprehensive income | - | 2,727 | 2,727 |
| Dividends paid | - | (533) | (533) |
| **Balance as at 30 June 2010** | **5,000** | **3,164** | **8,164** |
| **FY11** | | | |
| Balance as at 1 July 2010 | 5,000 | 3,164 | 8,164 |
| Total comprehensive income | - | 3,379 | 3,379 |
| Dividends paid | - | - | - |
| **Balance as at 30 June 2011** | **5,000** | **6,543** | **11,543** |
| **FY12** | | | |
| Balance as at 1 July 2011 | 5,000 | 6,543 | 11,543 |
| Total comprehensive income | - | 4,065 | 4,065 |
| Dividends paid | - | - | - |
| **Balance as at 30 June 2012** | **5,000** | **10,608** | **15,608** |
| **FY13** | | | |
| Balance as at 1 July 2012 | 5,000 | 10,608 | 15,608 |
| Total comprehensive income | - | 3,397 | 3,397 |
| Dividends paid | - | - | - |
| **Balance as at 30 June 2013** | **5,000** | **14,005** | **19,005** |
| **FY14** | | | |
| Balance as at 1 July 2013 | 5,000 | 14,005 | 19,005 |
| Total comprehensive income | - | 4,786 | 4,786 |
| Dividends paid | - | - | - |
| **Balance as at 30 June 2014** | **5,000** | **18,791** | **23,791** |
| | (unaudited) | (unaudited) | (unaudited) |
| **1H15** | | | |
| Balance as at 1 July 2014 | 5,000 | 18,791 | 23,791 |
| Total comprehensive income | - | 2,420 | 2,420 |
| Dividends paid | - | - | - |
| Redemption of redeemable preference shares | (5,000) | - | (5,000) |
| **Balance as at 31 December 2014** | - | **21,211** | **21,211** |

## 5 Year Summary Consolidated Statements of Financial Position

5 YEAR SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| $'000 | 30-Jun-10 (audited) | 30-Jun-11 (audited) | 30-Jun-12 (audited) | 30-Jun-13 (audited) | 30-Jun-14 (audited) | 31-Dec-14 (unaudited) |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current assets** | | | | | | |
| Cash at bank and on hand | 713 | 1,227 | 3,858 | 5,809 | 8,090 | 2,634 |
| Accounts receivable | 8,316 | 10,064 | 9,485 | 10,231 | 10,734 | 11,456 |
| Related party receivables | 946 | 1,101 | 1,134 | 1,425 | 492 | 520 |
| Prepaid expenses and other current assets | 186 | 265 | 266 | 323 | 362 | 719 |
| Derivative financial instruments | - | - | - | - | 34 | - |
| **Total current assets** | **10,161** | **12,657** | **14,743** | **17,788** | **19,712** | **15,329** |
| **Non-current assets** | | | | | | |
| Deferred taxation asset | 377 | 331 | 305 | 418 | 388 | 379 |
| Property, plant and equipment | 7,096 | 6,870 | 6,431 | 6,249 | 8,045 | 10,549 |
| Intangibles | 408 | 224 | 273 | 384 | 529 | 383 |
| Investment in joint venture (UPS-Fliway) | 924 | 1,221 | 1,212 | 1,435 | 1,461 | 1,613 |
| Goodwill | 23,047 | 23,047 | 23,047 | 23,046 | 23,046 | 23,046 |
| **Total non-current assets** | **31,852** | **31,693** | **31,268** | **31,532** | **33,469** | **35,970** |
| **Total assets** | **42,013** | **44,350** | **46,011** | **49,320** | **53,181** | **51,299** |
| **Liabilities** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable and accrued expenses | 3,807 | 4,397 | 5,422 | 5,843 | 5,078 | 5,792 |
| Provisions | 301 | 444 | 192 | 276 | 554 | 680 |
| Related party payables | - | - | - | 30 | 35 | 40 |
| Employee benefits | 1,092 | 1,400 | 1,033 | 1,011 | 1,047 | 1,187 |
| Taxation payable | 390 | 453 | 256 | 372 | 415 | 212 |
| Derivative financial instruments | 463 | 76 | - | 152 | - | 108 |
| Interest-bearing loans | 3,328 | 20,089 | - | - | 19,292 | - |
| Unsecured loan (D Hawkesby) | - | - | - | - | 2,436 | - |
| Unsecured loan (D&G Hawkesby Trust) | - | - | - | - | 533 | - |
| **Total current liabilities** | **9,381** | **26,859** | **6,903** | **7,684** | **29,390** | **8,019** |
| **Non-current liabilities** | | | | | | |
| Interest-bearing loans | 19,899 | 1,379 | 19,231 | 19,262 | - | 19,300 |
| Unsecured loan (D Hawkesby) | 4,569 | 4,569 | 4,269 | 2,836 | - | 2,236 |
| Unsecured loan (D&G Hawkesby Trust) | - | - | - | 533 | - | 533 |
| **Total non-current liabilities** | **24,468** | **5,948** | **23,500** | **22,631** | **-** | **22,069** |
| **Total liabilities** | **33,849** | **32,807** | **30,403** | **30,315** | **29,390** | **30,088** |
| **Net assets** | **8,164** | **11,543** | **15,608** | **19,005** | **23,791** | **21,211** |
| **Equity** | | | | | | |
| Issued capital | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 0 |
| Retained earnings | 3,164 | 6,543 | 10,608 | 14,005 | 18,791 | 21,211 |
| **Total equity** | **8,164** | **11,543** | **15,608** | **19,005** | **23,791** | **21,211** |

**Note:**

Interest bearing loans are shown as current liabilities at 30 June 2014 given their expiry profile at that time. Fliway has subsequently entered into the Banking Facilities and, as a result, interest bearing loans are shown as a non-current liability as at 31 December 2014.

## 5 Year Summary Consolidated Statements of Cash Flows

**5 YEAR SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS**

| $'000 | FY10 (unaudited) | FY11 (unaudited) | FY12 (unaudited) | FY13 (audited*) | FY14 (audited) | 1H15 (unaudited) |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| Receipts from customers | 42,153 | 49,878 | 53,460 | 74,433 | 82,133 | 44,760 |
| Interest received | 18 | 12 | 29 | 108 | 197 | 69 |
| Receipts from joint venture (UPS-Fliway) | 17,740 | 19,059 | 20,213 | 22,235 | 13,678 | 2,936 |
| Payments to suppliers and employees | (54,333) | (62,846) | (65,724) | (91,502) | (88,425) | (43,708) |
| Interest paid | (2,244) | (1,618) | (1,040) | (902) | (938) | (540) |
| Income taxes paid | (231) | (1,135) | (1,484) | (934) | (1,384) | (933) |
| **Net cash inflow/(outflow) from operating activities** | **3,103** | **3,350** | **5,453** | **3,438** | **5,261** | **2,584** |
| **Cash flows from investing activities** | | | | | | |
| Dividend received from UPS-Fliway | 300 | 300 | 800 | 698 | 837 | 419 |
| Payments for property, plant and equipment | (734) | (1,305) | (1,136) | (1,285) | (3,417) | (3,259) |
| **Net cash inflow/(outflow) from investing activities** | **(434)** | **(1,005)** | **(336)** | **(587)** | **(2,580)** | **(2,840)** |
| **Cash flows from financing activities** | | | | | | |
| Dividends paid | (533) | - | - | - | - | - |
| Repayment of borrowings | (2,583) | (1,831) | (2,486) | (900) | (400) | (200) |
| Repayment of shares | - | - | - | - | - | (5,000) |
| **Net cash inflow/(outflow) from financing activities** | **(3,116)** | **(1,831)** | **(2,486)** | **(900)** | **(400)** | **(5,200)** |
| Net increase/(decrease) in cash and cash equivalents | (447) | 514 | 2,631 | 1,951 | 2,281 | (5,455) |
| Cash and cash equivalents at the beginning of the year | 1,160 | 713 | 1,227 | 3,858 | 5,809 | 8,090 |
| **Cash and cash equivalents at end of the year** | **713** | **1,227** | **3,858** | **5,809** | **8,090** | **2,634** |

**Note:**

The statement of cash flows for the year ended 30 June 2013 was first presented as comparative information in the financial statements for the year ended 30 June 2014, and as such was first audited as part of the 30 June 2014 financial statements.

# APPENDIX 2:  AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

# FLIWAY GROUP LIMITED

## ANNUAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2014

**Contents** | **Page**



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**FLIWAY GROUP LIMITED**

**COMPANY DIRECTORY**

**FOR THE YEAR ENDED 30 JUNE 2014**

| | |
|---|---|
| **NATURE OF BUSINESS** | Local and Linehaul Carriers<br>International Freight Forwarders<br>Third Party Logistics Providers |
| **REGISTERED OFFICE** | 66 Westney Road<br>Mangere<br>Auckland, New Zealand |
| **DIRECTOR** | Duncan Hawkesby |
| **AUDITORS** | Deloitte<br>Auckland |
| **BANKERS** | ANZ Bank New New Zealand Limited |
| **SOLICITORS** | Bell Gully<br>Auckland |
| **HEAD OFFICE** | 66 Westney Road<br>Mangere<br>Auckland |
| **MAJORITY SHAREHOLDER** | D & G Hawkesby Trust |

**FLIWAY GROUP LIMITED**

**DIRECTOR'S STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 2014**

**Disclosure to Shareholders**

The Director is pleased to present the financial statements of Fliway Group Limited for the year ended 30 June 2014.

No disclosure has been made in respect of Section 211 (1) (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with Section 211 (3) of the Act.

The Director is responsible for the preparation of the Financial Statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of Fliway Group Limited and Group as at 30 June 2014 and the results of their operations for the year ended 30 June 2014.

The Director considers that the financial statements of the company and the group have been prepared using accounting policies appropriate to the company and group circumstances. These policies have been consistently applied and supported by reasonable and prudent judgments and estimates, and all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The Director has the responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the company and group and enable him to ensure that the financial statements comply with the Financial Reporting Act 1993.

The Director has the responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Director considers that adequate steps have been taken to safeguard the assets of the company and group and to prevent and detect fraud and other irregularities.

This annual report and the financial statements are dated 10th November 2014 and signed in accordance with a resolution of the Director made pursuant to section 211(1)(k) of the Companies Act 1993.

*Signed on behalf of the Board on 10th November 2014*

..........................................

*Director*



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# FLIWAY GROUP LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2014

| | Note | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|---|
| Revenue from operating activities | | 81,511 | 74,391 | - | - |
| **Total operating revenue** | | 81,511 | 74,391 | - | - |
| Disbursement costs | | (22,489) | (19,121) | - | - |
| Freight costs | | (3,780) | (4,562) | - | - |
| Depreciation and amortisation | *(9)(10)* | (1,445) | (1,302) | - | - |
| Rental and leasing charges | | (6,717) | (6,401) | - | - |
| Share of joint venture profit | *(21)* | 925 | 974 | - | - |
| Personnel costs | *(2)* | (27,497) | (25,064) | - | - |
| Vehicle expenses | | (7,099) | (6,732) | - | - |
| Net gains / (losses) arising from derivative instruments | *(28)* | 89 | (152) | 89 | (152) |
| Other operating expenses | *(3)* | (6,451) | (6,851) | (90) | (94) |
| **Operating profit before financing costs** | | 7,047 | 5,180 | (1) | (246) |
| Interest received | | 197 | 108 | - | - |
| Interest paid | *(15)* | (938) | (902) | (938) | (902) |
| **Net financing costs** | | (741) | (794) | (938) | (902) |
| **Subvention receipt** | | - | - | 1,148 | 981 |
| **Profit / (loss) before taxation** | | 6,306 | 4,386 | 209 | (167) |
| **Taxation (expense) / benefit** | *(5)* | (1,520) | (989) | (58) | 47 |
| **Net profit / (loss) & total comprehensive income for the year** | | 4,786 | 3,397 | 151 | (120) |
| **Earnings per share** | | | | | |
| Basic earnings per share (dollars per share) | *(18)* | 46,922 | 33,304 | - | - |
| Diluted earnings per share (dollars per share) | *(18)* | 46,922 | 33,304 | - | - |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.



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# FLIWAY GROUP LIMITED

## STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2014

| Group | Note | Issued Capital ($'000) | Retained Earnings ($'000) | Total ($'000) |
|---|---|---|---|---|
| Balance at 1 Jul 12 | | 5,000 | 10,608 | 15,608 |
| Profit or loss and total comprehensive income | | - | 3,397 | 3,397 |
| Dividends paid | | - | - | - |
| Balance at 30 Jun 13 | | 5,000 | 14,005 | 19,005 |
| Profit or loss and total comprehensive income | | - | 4,786 | 4,786 |
| Dividends paid | | - | - | - |
| Balance at 30 Jun 14 | | 5,000 | 18,791 | 23,791 |

| Company | Note | Issued Capital ($'000) | Retained Earnings ($'000) | Total ($'000) |
|---|---|---|---|---|
| Balance at 1 Jul 12 | | 5,000 | (2,363) | 2,637 |
| Profit or loss and total comprehensive income | | - | (120) | (120) |
| Dividends paid | | - | - | - |
| Balance at 30 Jun 13 | | 5,000 | (2,483) | 2,517 |
| Profit or loss and total comprehensive income | | - | 151 | 151 |
| Dividends paid | | - | - | - |
| Balance at 30 Jun 14 | | 5,000 | (2,332) | 2,668 |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

## FLIWAY GROUP LIMITED

## STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2014

| | Note | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash at bank and on hand | | 8,090 | 5,809 | - | - |
| Accounts receivable | (7) | 10,734 | 10,231 | - | - |
| Related party receivables | (19) | 492 | 1,425 | - | - |
| Prepaid expenses | | 362 | 323 | - | - |
| Derivative financial instruments | (6) | 34 | - | 34 | - |
| **Total current assets** | | 19,712 | 17,788 | 34 | - |
| **Non-current assets** | | | | | |
| Deferred taxation asset | (8) | 388 | 418 | 264 | 322 |
| Property, plant and equipment | (9) | 8,045 | 6,249 | - | - |
| Intangibles | (10) | 529 | 384 | - | - |
| Investment in joint venture | (21) | 1,461 | 1,435 | - | - |
| Investment in subsidiaries | (20) | - | - | 30,359 | 30,359 |
| Goodwill | (11) | 23,046 | 23,046 | - | - |
| **Total non-current assets** | | 33,469 | 31,532 | 30,623 | 30,681 |
| **Total assets** | | 53,181 | 49,320 | 30,657 | 30,681 |
| **Current liabilities** | | | | | |
| Accounts payable & accrued expenses | (12) | 5,078 | 5,843 | - | - |
| Provisions | (13) | 554 | 276 | - | - |
| Related party payables | (19) | 35 | 30 | 5,728 | 5,381 |
| Employee benefits | | 1,047 | 1,011 | - | - |
| Taxation payable | | 415 | 372 | - | - |
| Derivative financial instruments | (6) | - | 152 | - | 152 |
| Interest-bearing loans | (15) | 19,292 | - | 19,292 | - |
| Unsecured loan (D Hawkesby) | (19) | 2,436 | - | 2,436 | - |
| Unsecured loan (D & G Hawkesby Trust) | (19) | 533 | - | 533 | - |
| **Total Current liabilities** | | 29,390 | 7,684 | 27,989 | 5,533 |
| **Non-current liabilities** | | | | | |
| Interest-bearing loans | (15) | - | 19,262 | - | 19,262 |
| Unsecured loan (D Hawkesby) | (19) | - | 2,836 | - | 2,836 |
| Unsecured loan (D & G Hawkesby Trust) | (19) | - | 533 | - | 533 |
| **Total non-current liabilities** | | - | 22,631 | - | 22,631 |
| **Total liabilities** | | 29,390 | 30,315 | 27,989 | 28,164 |
| **Net assets** | | 23,791 | 19,005 | 2,668 | 2,517 |
| **Equity** | | | | | |
| Issued capital | (14) | 5,000 | 5,000 | 5,000 | 5,000 |
| Retained earnings | (25) | 18,791 | 14,005 | (2,332) | (2,483) |
| **Total equity** | | 23,791 | 19,005 | 2,668 | 2,517 |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.



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**FLIWAY GROUP LIMITED**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 30 JUNE 2014**

| | Note | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 82,133 | 74,433 | - | - |
| Interest received | | 197 | 108 | - | - |
| Receipts from joint venture | | 13,678 | 22,235 | - | - |
| Receipts from subsidiaries | | - | - | 1,496 | 1,866 |
| Payments to suppliers and employees | | (88,425) | (91,502) | (158) | (64) |
| Interest paid | | (938) | (902) | (938) | (902) |
| Income taxes paid | | (1,384) | (934) | - | - |
| **Net cash generated by operating activities** | (4) | 5,261 | 3,438 | 400 | 900 |
| **Cash flows from investing activities** | | | | | |
| Dividend received from joint venture | | 837 | 698 | - | - |
| Payments for property, plant and equipment | | (3,417) | (1,285) | - | - |
| **Net cash (used in)/provided by investing activities** | | (2,580) | (587) | - | - |
| **Cash flows from financing activities** | | | | | |
| Repayment of borrowings | | (400) | (900) | (400) | (900) |
| **Net cash used in financing activities** | | (400) | (900) | (400) | (900) |
| **Net increase in cash and cash equivalents** | | 2,281 | 1,951 | - | - |
| Cash and cash equivalents at the beginning of the year | | 5,809 | 3,858 | - | - |
| **Cash and cash equivalents at the end of the year** | | 8,090 | 5,809 | - | - |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

## Statement of compliance

Fliway Group Limited (the "Company") is a profit oriented company registered under the Companies Act 1993 and domiciled and incorporated in New Zealand. Its principal activities are transportation of goods, customer logistics solutions and freight forwarding.

The consolidated financial statements are presented for the company and its subsidiaries and joint venture company (together the "Group") for the year ended 30 June 2014. The financial statements were authorised for issue by the Director on 10th November 2014.

## Basis of preparation

The consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS). The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The preparation of financial statements in conformity with New Zealand equivalents to International Financial Reporting Standards requires the Directors and management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. These estimates and associated assumptions are based on market data, historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 1.

The consolidated financial statements have been prepared on a historical basis except for derivative financial instruments that are measured at fair values at the end of each reporting period.

The functional and presentation currency is New Zealand dollars (NZD). Numbers in the consolidated financial statements are presented in thousands of dollars (000's) unless otherwise stated.

**Transition to NZ IFRS**

In the current financial year ended 30 June 2014 the Group elected to report in accordance with Full NZ IFRS and will no longer apply the exemptions available under the Framework for Differential Reporting. The date of transition to NZ IFRS is 1 July 2012. The Group have chosen to report in accordance with NZ IFRS due to an anticipated initial public offering, which will result in the Group becoming a publicly accountable entity. Entities with public accountability are required to report under Tier 1 (NZ IFRS) in accordance with the External Reporting Board Standard A1 "Accounting Standards Framework (For-Profit Entities Update)" (XRB A1). As a result of the transition the Group applied requirements under NZ IFRS 1 *First-time Adoption of New Zealand equivalents to International Financial Reporting Standards* (NZ IFRS 1). Prior to transition to Full NZ IFRS the Group adopted all differential reporting exemptions except for:
> the exemption under NZ IAS 12 *Income Taxes* allowing the use of the tax payable method to account for income taxes;
> the exemption under NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* allowing the measurement of transactions in foreign currencies at the settlement rate; and
> the exemption under NZ IAS 18 *Revenue* allowing the recording of revenue and expenses inclusive of GST.

Exemptions that are no longer available to the Group as a result of the transition and which will have the most material impact are:
> the exemption under NZ IAS 7 *Statement of Cash Flows* which exempts qualifying entities from preparing a statement of cash flows. The Group has prepared a statement of cash flows for the year ended 30 June 2014 including 30 June 2013 comparatives.
> the exemption under NZ IAS 36 *Impairment of Assets* allowing qualifying entities to assess goodwill and intangible assets with indefinite useful lives for indications of impairment annually rather than testing for impairment annually and whenever an indication of impairment exists. The Group has tested goodwill as at 30 June 2013 and 30 June 2014.
The adoption of NZ IFRS had no impact on the Group's statement of financial position as at 1 July 2012 and as at 30 June 2013, and on the Group's Statement of Comprehensive Income for the year ended 30 June 2013.

**Going concern**

The Group has a deficit of current liabilities to current assets of $9,678,000 (2013: $10,104,000 surplus) and the Company has a deficit of current liabilities to current assets of $27,955,000 (2013: $5,533,000 deficit). Further, as noted in note 15, the current term facility held by the Company and Group with the Company and Group's bankers – ANZ Bank New Zealand Limited ("ANZ") – matured on 6 October 2014.

The excess of current liabilities over current assets obtained arises due to the bank facilities existing at 30 June 2014 expiring at 6 October 2014. The $19,292,000 owing to ANZ as at 30 June 2014 is classified as a current liability as a result.

Subsequent to year end, the Director has signed a Committed Term Sheet (the "Term Sheet") dated 31 October 2014 from the ANZ confirming the terms and conditions of new facilities offered to the Company and Group. The Term Sheet confirms a combined facility of $22.2m, including $12.8m of term facility, $6.5m of revolving credit facility, $1.5m overdraft facility and $1.4m financial guarantee facility, all subject to the Company and Group remaining as a privately owned company. Should the Company and Group complete an initial public offering, the facility is immediately reduced by $2.8m. The new term facility with a term of 3 years was drawndown on 5 November 2014. An initial public offering has not been completed at the date the financial statements are approved by the Director. Interest terms in the new facility are consistent with those in the current term facility, which is based on a floating market rate plus a margin. The agreed margin has remained the same for the term facility and the overdraft facility. The margin on the revolving credit facility increased 0.075%.

The financial statements have been prepared on a going concern basis. The Director believes the preparation of the financial statements using the going concern assumption which depends on ongoing access to sufficient funding to meet the Group's requirements, is appropriate. In addition, he has considered the circumstances which are likely to affect the Group and Company during the period of one year from the date these financial statements are approved, and to circumstances which he believes will occur after that date which could affect the validity of the going concern assumption.

**Application of new and revised International Financial Reporting Standards (IFRS's)**

The following standards and amendments were adopted by the Company and Group in the preparation of these financial statements :

> NZ IFRS 13 Fair Value Measurement.

Application of NZ IFRS 13 has not materially affected the fair value measurements of the Group. The fair value hierarchy is provided in note 22(vii).

In addition the Group adopted the following standards in the preparation of these financial statements :

> NZ IAS 19 Employee Benefits (revised 2011);
> NZ IAS 27 Separate Financial Statements (revised 2011);
> NZ IAS 28 Investments in Associates and Joint Ventures (revised 2011);
> Amendments to NZ IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities;

> NZ IFRS 10 Consolidated Financial Statements;
> NZ IFRS 11 Joint Arrangements;
> NZ IFRS 12 Disclosure of Interests in Other Entities; and
> Annual Improvements to NZ IFRS's 2009 - 2011 Cycle.

The adoption of these standards did not have a material effect on the Group's or Company's financial statements.

Standards and amendments, which are available for early adoption and may impact the financial statements of the Group in future periods but that have not been applied been applied by the Group in the preparation of these financial statements include :

> NZ IFRS 9 Financial Instruments;
> NZ IFRS 15 Revenue from contracts with customers;
> NZ IAS 32 Offsetting Financial Assets and Financial Liabilities; and
> Amendments to NZ IAS 16 and NZ IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group have not yet performed a detailed analysis to determine the impact on the financial statements of the Group of adopting these standards.

All other standards and amendments which are not yet mandatory for adoption are not expected to have any significant impact on the financial statements of the Group.

**Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below:

**(a) Consistency of application**

The accounting policies have been applied consistently throughout the Group and throughout the year for the purposes of this financial report.

**(b) Consolidation of subsidiaries**

Subsidiaries are those entities that are controlled by the Company. Control is achieved when the Company;

> has power over the investee;
> is exposed, or has rights, to variable returns from its involvement with the investee; and
> has the ability to use it's power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group's financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the purchase method. Refer to policy (c) Business Combinations.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the company loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

All intercompany transactions, balances and unrealised profits are eliminated on consolidation.
Subsidiary companies comprise:
Fliway Holdings Limited and its subsidiaries listed below
Fliway Transport Limited
Fliway International Limited
Fliway Logistics Limited

Investments in subsidiaries are measured at cost less impairment in the parent Company's financial statements.

**(c) Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in the profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at the fair value, except that:

> deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively.

**(c) Business combinations (cont).**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**(d) Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby all parties that have joint control over the arrangement and have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS 5. Under the equity method, an investment in an associate or joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and the other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the profit or loss in the period in which the investment is acquired.

**(d) Investments in associates and joint ventures (cont).**

The requirements of NZ IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with NZ IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with NZ IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with NZ IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had been previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit and loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

The Group's joint venture is United Parcel Services - Fliway (NZ) Limited.

**(e) Goodwill on acquisition**

Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss relating to goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of a cash-generating unit the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**(f) Statement of comprehensive income**

*Revenue*
Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Specific recognition criteria must also be met as follows:

Rendering of services:

> Revenue for domestic contracted deliveries is recognised when a customer's goods are delivered at the customer's designated destination, or when the contracted activity has been completed. Revenues derived from international freight forwarding are recognised for exports on freight departure and for imports on freight arrival. Fees for warehousing are recognised as services are provided to the customer.

*Interest Received*
Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

*Interest Expense*
Interest expense is recognised using the effective interest rate method.

**(g) Financial assets**

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Financial assets at fair value through profit or loss*
Financial assets in this category are either financial assets held for trading or financial assets designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

i. it has been acquired principally for the purpose of selling in the near future; or
ii. it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
iii. it is a derivative that is not designated and effective as a hedging instrument.

The Company and Group does not apply hedge accounting.

Financial assets classified as at fair value through profit or loss upon initial recognition are stated at fair value, with any resultant gain or loss recognised in the profit and loss. The net gain or loss recognised in the profit and loss includes any interest earned on the financial asset.

*Loans and receivables*
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

*Impairment of financial assets*
Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Company and Group will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit and loss.

**(h) Financial instruments issued by the company**

*Debt and equity instruments*
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Debt is classified as current unless the Company or Group has the unconditional right to defer settlement of the debt for at least 12 months after the balance sheet date.

*Interest bearing borrowings*
Interest bearing borrowings are recognised initially as fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the borrowings, or where appropriate, a shorter period, to the net carrying amount of the borrowings.

*Interest and dividends*
Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

**(i) Property, plant and equipment**

*Carrying Amount*
Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses to date. Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount. The write down is recognised in the profit or loss.

*Depreciation*
Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, by using the diminishing balance method. Under the diminishing balance method, a pre-defined depreciation rate is applied to the opening net book value of the asset to calculate the amount of depreciation for the year. Depreciation is charged to the profit or loss. The following rates have been used:

| | |
|---|---|
| Plant and equipment | 1.0-60.0% |
| Furniture and fittings | 9.0-60.0% |
| Vehicles | 9.5-39.6% |
| Office equipment | 14.4-60.0% |

The depreciation method and the depreciation rates are reviewed at the end of each reporting period. If there is a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the effect of any changes in estimate is accounted for on a prospective basis.

**(j) Intangible assets acquired separately**

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised using the diminishing balance method. Under the diminishing balance method, a pre-defined amortisation rate is applied to the opening net book value of the asset to calculate the amount of amortisation for the year. Amortisation is charged to the profit or loss. The following rates have been used:

| | |
|---|---|
| Computer software and licences | 21.6-60.0% |
| Customer list | 33.3% |

The amortisation method and the amortisation rates are reviewed at the end of each reporting period and if there is a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the effect of any changes in estimate is accounted for on a prospective basis.

**(k) Taxation**

*Income tax expense*
Income tax expense represents the sum of current tax and deferred tax.

*Current tax*
Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

*Deferred tax*
Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than as a result of a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period(s) when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited to comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities on a net basis.



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**(l) Accounts payable**

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

**(m) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**(n) Employee benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits that are expected to be settled within 12 months are measured at their nominal values using the current remuneration rate.

Provisions made in respect of employee benefits are all expected to be settled within 12 months.

**(o) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

**(p) Leases**

*Operating leases*
Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. Benefits received as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**(q) Derivative financial instruments**

The Group and Company enters into interest rate swap and option contracts to manage its exposure to interest rate movements on their term loans, refer note 22(ii).

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. The Group and Company has not adopted hedge accounting.

**(r) Impairment of tangible and intangible assets other than goodwill**

At each financial year end, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying value does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(s) Segmental Reporting**

The determination of the Group's operating segments and the information reported for the operating segments is based on the management approach as set out in NZ IFRS 8 Operating Segments. The Group's Managing Director has been identified as the Group's chief operating decision maker for the purpose of applying NZ IFRS 8.

**(t) Cash flow**

The following are the definitions of terms used in the Statement of Cash Flows:

> cash is cash on hand, current accounts in banks and short term deposits with a maturity period of up to 4 months;

> investing activities are those activities relating to acquisition, holding and disposal of property, plant and equipment and of investments not falling within the definition of cash, and include the purchase and sale of interests in other entities;

> financing activities are those activities which result in changes in the size and the composition of the capital structure. This includes both equity and debt; and

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

**(u) Share capital**

Ordinary shares and preference shares are classified as equity. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Share capital is recognised at the fair value of the consideration received for the issue of shares, net of direct issue costs. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Transaction costs related to the listing of new shares and the simultaneous listing of existing shares on the NZX are allocated to those shares on a proportionate basis. Incremental costs directly attributable to the listing of existing shares are not considered costs of an equity instrument as no equity instrument is issued and consequently costs are recognised as an expense in the profit or loss when incurred. Incremental costs directly attributable to the issue of new share capital are recognised directly in equity as a reduction of the share proceeds received.

**(v) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 1 Significant accounting judgements and key estimates and assumptions

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions and the differences may be material. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

**Significant accounting judgements**

United Parcel Services-Fliway is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there is no contractual arrangement or any facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, United Parcel Services-Fliway is classified as a joint venture of the Group.

**Key estimates and assumptions**

*Estimated impairment of non financial assets excluding goodwill*

Non-financial assets (including property, plant and equipment, intangible assets, investment in joint venture company and investments in subsidiary companies) are reviewed at each reporting date to determine whether there are any indicators that the carrying amount may not be recoverable.

*Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 30 June 2014 was $23,046k (2013: $23,046k). Details of the impairment loss testing calculations are provided in note 11.

## 2 Personnel expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Salaries and wages | 22,870 | 21,070 | - | - |
| Defined contribution plan | 450 | 299 | - | - |
| Other employee benefits | 4,177 | 3,695 | - | - |
| | 27,497 | 25,064 | - | - |

## 3 Other operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| *Other operating expenses include the following items:* | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Fees paid to auditors - audit | 74 | 74 | - | - |
| Fees paid to auditors - taxation advice and tax return assistance | 26 | 34 | - | - |
| Fees paid to auditors - due diligence services | - | 33 | - | - |
| Loss on disposal - property/plant/equipment | 30 | 56 | - | - |
| Impairment loss / (recovery) on receivables | 7 | (29) | - | - |
| Foreign exchange (gain) / loss | (8) | (17) | - | - |
| System Maintenance | 1,155 | 1,146 | | |
| Other expenses | 5,167 | 5,554 | 90 | 94 |
| | 6,451 | 6,851 | 90 | 94 |

## 4 Reconciliation of Net Profit after Tax with Cash Flows from Operating Activities

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Net profit after tax | 4,786 | 3,397 | 151 | (120) |
| Loss on sale or disposal of non current assets | 30 | 56 | - | - |
| Depreciation and amortisation | 1,445 | 1,302 | - | - |
| Share of joint venture net profit | (925) | (974) | - | - |
| Increase / (decrease) in current tax liabilities | 43 | 117 | - | - |
| Decrease / (increase) in deferred tax assets | 30 | (113) | 58 | (47) |
| Increase / (decrease) in interest bearing liabilities | 30 | 30 | 30 | 30 |
| Changes in working capital | | | | |
| *(Increase) / Decrease in assets:* | | | | |
| Current receivables | (503) | (746) | - | - |
| Prepayments | (39) | (57) | - | - |
| Related party receivables | 933 | (291) | - | - |
| Derivative financial instruments | (186) | 152 | (186) | 152 |
| *Increase / (decrease) in liabilities:* | | | | |
| Current payables and accruals | (765) | 421 | - | - |
| Current provisions | 278 | 84 | - | - |
| Current employee benefits | 36 | (22) | - | - |
| Related party payables | 5 | 30 | 347 | 885 |
| Classified as investing activities | 63 | 52 | - | - |
| Net cash generated by operating activities | 5,261 | 3,438 | 400 | 900 |



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For Identification

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **5 Income tax expense / (benefit)** | ($'000) | ($'000) | ($'000) | ($'000) |
| Tax expense / (benefit) comprises: | | | | |
| Current tax | 1,490 | 1,104 | - | - |
| Deferred tax | 30 | (113) | 58 | (47) |
| Under / (over) provision in previous years | - | (2) | - | - |
| Income tax expense / (benefit) for the year | 1,520 | 989 | 58 | (47) |
| *Reconciliation of effective tax rate* | | | | |
| Profit / (loss) before tax | 6,306 | 4,386 | 209 | (167) |
| Income tax using company tax rate 28% | 1,765 | 1,229 | 58 | (47) |
| Non-assessable income | (257) | (238) | - | - |
| Non-deductible expenses | 12 | - | - | - |
| Under / (over) provision in previous years | - | (2) | - | - |
| | 1,520 | 989 | 58 | (47) |

The tax rate used in the reconciliation above for both the Group and Company is the corporate tax rate of 28% payable by New Zealand corporate entities on taxable profits under New Zealand tax law.

| **6 Derivative financial instruments - fair value** | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($'000) | ($'000) | ($'000) | ($'000) |
| Interest rate swaps | 28 | (86) | 28 | (86) |
| Interest rate options | 6 | (66) | 6 | (66) |
| | 34 | (152) | 34 | (152) |

The Company and Group have entered into interest rate swaps and options to hedge against the interest exposure on the term loans. Interest rate swaps and options are classified as level 2 financial instruments measured at fair value after initial recognition, refer to note 22(vii).

| **7 Accounts receivable** | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($'000) | ($'000) | ($'000) | ($'000) |
| Trade Receivables | 10,747 | 10,247 | - | - |
| Allowance for doubtful debts | (13) | (16) | - | - |
| | 10,734 | 10,231 | - | - |
| Ageing of past due but not impaired trade receivables | | | | |
| 31-90 days | 181 | 235 | - | - |
| 91 days + | 535 | 418 | - | - |
| | 716 | 653 | - | - |

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Allowance for doubtful debts | ($'000) | ($'000) | ($'000) | ($'000) |
| Opening balance | 16 | 85 | - | - |
| Impairment losses recognised on receivables | 34 | 26 | - | - |
| Amounts written off during the year as uncollectable | (10) | (40) | - | - |
| Amounts recovered during the year | 6 | - | - | - |
| Impairment losses reversed | (33) | (55) | - | - |
| Balance at end of the year | 13 | 16 | - | - |
| Ageing of impaired trade receivables | | | | |
| 31-90 days | 4 | 2 | - | - |
| 91 days + | 9 | 14 | - | - |
| Total | 13 | 16 | - | - |

The allowance for doubtful debts in relation to trade receivables is provided for based on estimated irrecoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. Trade receivables past due are provided for based on estimated irrecoverable amounts determined by past default experience. In the current year, the Group has recognised a loss of $7,000 in respect of bad and doubtful debts (2013: gain $29,000). This is recorded within 'other operating expenses' in the profit or loss.

8 **Deferred tax**

| 2014 | Group<br>Opening balance ($'000) | Charged to income ($'000) | Closing Balance ($'000) |
|---|---|---|---|
| Temporary differences | | | |
| Doubtful debts | 5 | 4 | 9 |
| Holiday liability | 200 | 19 | 219 |
| Provisions | 213 | (53) | 160 |
| | 418 | (30) | 388 |

| 2013 | Group<br>Opening balance ($'000) | Charged to income ($'000) | Closing Balance ($'000) |
|---|---|---|---|
| Temporary differences | | | |
| Doubtful debts | 23 | (18) | 5 |
| Holiday liability | 188 | 12 | 200 |
| Provisions | 94 | 119 | 213 |
| | 305 | 113 | 418 |

| 2014 | Company<br>Opening balance ($'000) | Charged to income ($'000) | Closing Balance ($'000) |
|---|---|---|---|
| Temporary differences | | | |
| Tax losses | 322 | (58) | 264 |
| | 322 | (58) | 264 |

| 2013 | Company<br>Opening balance ($'000) | Charged to income ($'000) | Closing Balance ($'000) |
|---|---|---|---|
| Temporary differences | | | |
| Tax losses | 275 | 47 | 322 |
| | 275 | 47 | 322 |

9 **Property, plant and equipment**

| 2014 | Group<br>At Cost ($'000) | Accumulated Depreciation ($'000) | Net Book Value ($'000) | Depreciation ($'000) |
|---|---|---|---|---|
| Office equipment | 2,247 | (2,045) | 202 | 95 |
| Furniture and fittings | 2,151 | (1,607) | 544 | 85 |
| Plant and equipment | 2,425 | (1,478) | 947 | 118 |
| Vehicles | 14,957 | (8,737) | 6,220 | 951 |
| Capital work in progress | 132 | - | 132 | - |
| | 21,912 | (13,867) | 8,045 | 1,249 |

| 2013 | Group<br>At Cost ($'000) | Accumulated Depreciation ($'000) | Net Book Value ($'000) | Depreciation ($'000) |
|---|---|---|---|---|
| Office equipment | 2,272 | (2,059) | 213 | 92 |
| Furniture and fittings | 2,186 | (1,613) | 573 | 95 |
| Plant and equipment | 2,248 | (1,377) | 871 | 120 |
| Vehicles | 13,821 | (9,229) | 4,592 | 891 |
| | 20,527 | (14,278) | 6,249 | 1,198 |

| Cost or valuation | Group<br>Office equipment ($'000) | Furniture and fittings ($'000) | Plant and equipment ($'000) | Vehicles ($'000) | Capital work in progress ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|
| Opening balance 1 July 2012 | 2,343 | 2,116 | 2,300 | 13,095 | 77 | 19,931 |
| Additions | 94 | 79 | 83 | 973 | - | 1,229 |
| Disposals | (165) | (9) | (135) | (247) | (77) | (633) |
| Balance at 30 June 2013 | 2,272 | 2,186 | 2,248 | 13,821 | - | 20,527 |
| Additions | 101 | 42 | 195 | 2,847 | 132 | 3,317 |
| Disposals | (126) | (77) | (18) | (1,711) | - | (1,932) |
| Balance at 30 June 2014 | 2,247 | 2,151 | 2,425 | 14,957 | 132 | 21,912 |

| Accumulated depreciation and impairment | Group<br>Office equipment ($'000) | Furniture and fittings ($'000) | Plant and equipment ($'000) | Vehicles ($'000) | Capital work in progress ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|
| Opening balance 1 July 2012 | (2,135) | (1,524) | (1,339) | (8,502) | - | (13,500) |
| Eliminated on disposal of assets | 168 | 6 | 82 | 164 | - | 420 |
| Depreciation expense | (92) | (95) | (120) | (891) | - | (1,198) |
| Balance at 30 June 2013 | (2,059) | (1,613) | (1,377) | (9,229) | - | (14,278) |
| Eliminated on disposal of assets | 109 | 91 | 17 | 1,443 | - | 1,660 |
| Depreciation expense | (95) | (85) | (118) | (951) | - | (1,249) |
| Balance at 30 June 2014 | (2,045) | (1,607) | (1,478) | (8,737) | - | (13,867) |

**Assets pledged as security.**

Vehicles with a carrying value of $6.2m as at 30 June 2014 (30 June 2013: $4.6m) have been pledged to secure borrowings of the Group, refer to note 15. The Group can sell these assets as part of its replacement and/or investment plan, with notification to the bank required and subject to its covenant commitments regarding budgeted capital expenditure.

## 10 Intangibles

| 2014 | Group At Cost ($'000) | Accumulated Amortisation ($'000) | Net Book Value ($'000) | Amortisation ($'000) |
|---|---|---|---|---|
| Computer software and licences | 2,118 | (1,656) | 462 | 196 |
| Customer list - Logic Distribution Ltd | 67 | - | 67 | - |
| | 2,185 | (1,656) | 529 | 196 |

| 2013 | Group At Cost ($'000) | Accumulated Amortisation ($'000) | Net Book Value ($'000) | Amortisation ($'000) |
|---|---|---|---|---|
| Computer software and licences | 2,342 | (2,025) | 317 | 104 |
| Customer list - Logic Distribution Ltd | 67 | - | 67 | - |
| | 2,409 | (2,025) | 384 | 104 |

Cost or valuation

| | Computer software and licences ($'000) | Customer list ($'000) | Total ($'000) |
|---|---|---|---|
| Opening balance 1 July 2012 | 2,121 | 67 | 2,188 |
| Additions | 221 | - | 221 |
| Disposals | - | - | - |
| Balance at 30 June 2013 | 2,342 | 67 | 2,409 |
| Additions | 344 | - | 344 |
| Disposals | (568) | - | (568) |
| Balance at 30 June 2014 | 2,118 | 67 | 2,185 |

Accumulated amortisation and impairment

| | Computer software and licences ($'000) | Customer list ($'000) | Total ($'000) |
|---|---|---|---|
| Opening balance 1 July 2012 | (1,921) | - | (1,921) |
| Eliminated on disposal of assets | - | - | - |
| Amortisation expense | (104) | - | (104) |
| Balance at 30 June 2013 | (2,025) | - | (2,025) |
| Eliminated on disposal of assets | 565 | - | 565 |
| Amortisation expense | (196) | - | (196) |
| Balance at 30 June 2014 | (1,656) | - | (1,656) |

## 11 Goodwill

| | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|
| Cost | 23,046 | 23,046 | - | - |
| Accumulated impairment losses | - | - | - | - |
| | 23,046 | 23,046 | - | - |

| *Cost* | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|
| Balance at beginning of year | 23,046 | 23,046 | - | - |
| Movements during the year | - | - | - | - |
| Balance at end of year | 23,046 | 23,046 | - | - |

| *Accumulated impairment losses* | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|
| Balance at beginning of year | - | - | - | - |
| Movements during the year | - | - | - | - |
| Balance at end of year | - | - | - | - |

**Goodwill (cont).**

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following Cash-generating units:
>Domestic - moving and storing freight within New Zealand
>International - moving freight between countries

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units based on EBITDA split at the time the business was acquired in October 2006, as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Domestic | 19,426 | 19,426 | - | - |
| International | 3,620 | 3,620 | - | - |
| | 23,046 | 23,046 | - | - |

*Domestic*
The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial year 2015 financial forecasts approved by the director, grown annually by a 2% growth rate per annum for a five-year forecast period. A discount rate of 10% per annum (2013: 9% per annum) was used.
Cash flow projections during the five-year forecast period are based on similar gross margins and cost price inflation throughout. The cash flows beyond that five-year period have been extrapolated using a steady 2% (2013: 2%) per annum growth rate. The director believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

*International*
The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial year 2015 financial forecasts approved by the director, grown annually by a 2% growth rate per annum for a five-year forecast period. A discount rate of 10% per annum (2013: 9% per annum) was used.
Cash flow projections during the five-year forecast period are based on similar gross margins and cost price inflation throughout. The cash flows beyond that five-year period have been extrapolated using a steady 2% (2013: 2%) per annum growth rate. The director believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

The key assumptions used in the value in use calculations for Domestic and International cash-generating units are as follows:

| | |
|---|---|
| Forecast revenue | Based on actual / budget revenue for the first year then a 2% per annum growth. The values assigned to the assumption reflect past experience and the director believes the growth rate per year for the next five years is reasonably achievable. |
| Forecast gross margin | Average gross margins achieved in the last period have been used. This reflects past experience and the director believes them to be reasonably achievable. |
| Forecast price inflation | Based on actual / budget costs for the first year, then consumer price indices used in future periods. The values assigned to the key assumption are consistent with external sources of information. |

| 12 Accounts payable | Group ($'000) | Group ($'000) | Company ($'000) | Company ($'000) |
|---|---|---|---|---|
| Trade payables | 2,644 | 2,252 | - | - |
| Accrued expenses | 2,136 | 3,240 | - | - |
| Goods and services tax (GST) payable | 298 | 351 | - | - |
| | 5,078 | 5,843 | - | - |

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The average credit period on purchases is 41 days (43 days as at 30 June 2013).

| | Group | | Company | |
|---|---|---|---|---|
| 13 Provisions | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Opening Balance | 276 | 186 | - | - |
| Release of previous year provisions | (133) | (150) | - | - |
| Additional provisions recognised | 151 | 85 | - | - |
| Provisions recovered during financial year | 1,039 | 892 | - | - |
| Provisions satisfied during financial year | (779) | (737) | - | - |
| | 554 | 276 | - | - |

All provisions represent the Director's best estimate of the future sacrifice of economic benefits required under the Group's operational policies and procedures. These estimates have been made on the basis of historical data trends. All amounts are expected to be settled within the next 12 months.

| 14 Issued Capital | Issued Capital 2014 (Shares) | Issued Capital 2014 (Dollars) | Issued Capital 2013 (Shares) | Issued Capital 2013 (Dollars) |
|---|---|---|---|---|
| Issued fully paid up shares: | | | | |
| - Ordinary | 102 | 100 | 102 | 100 |
| - Redeemable preference | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| | 5,000,102 | 5,000,100 | 5,000,102 | 5,000,100 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends and, upon winding up, a pro rata share of the Company's assets. The shares have no par value.

Fully paid redeemable preference shares carry no voting rights and no right to dividends and, upon winding up, rank ahead of ordinary shares with issue price repayment and do not participate in a share of the Company's assets. The Company has the option to redeem the preference shares held. The shares have no par values.

| | | Note | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|---|---|
| 15 | **Interest-bearing loans** | | | | | |
| | Current - Secured | | | | | |
| | ANZ Loan | *(a)* | 19,292 | - | 19,292 | - |
| | Non-current - Secured | | | | | |
| | ANZ Loan | *(a)* | - | 19,262 | - | 19,262 |
| | Interest directly applicable to ANZ loan | | 938 | 902 | 938 | 902 |

(a) Flexible interest rate term facility matured on 6 October 2014 and was extended for another 3 year term, refer to note 22 (iii). Interest is payable monthly in arrears, during the year the interest rate ranged between 4.58% and 5.32% per annum (2013: 4.43% and 4.75%) excluding the impact of any interest rate swaps / options. The ANZ holds security over all vehicles of the Group, refer to note 9.

| | | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|---|
| 16 | **Imputation credits** | | | | |
| | Imputation credits available directly and indirectly to shareholders of the parent company | 7,825 | 5,593 | - | - |

Imputation credit accounts are only available to carry forward if shareholders continuity is maintained and are subject to Inland Revenue Department approval.

**17 Commitments**

Commitments for the group include office equipment, lease of premises and non-cancellable motor vehicle operating leases as follows:

| Obligations payable after balance date on non-cancellable leases are as follows: | Group 2014 ($'000) | Group 2013 ($'000) | Company 2014 ($'000) | Company 2013 ($'000) |
|---|---|---|---|---|
| Within one year | 6,670 | 5,912 | - | - |
| 1-5 years | 9,038 | 15,420 | - | - |
| 5+ years | 222 | 46 | - | - |
| | 15,930 | 21,378 | - | - |

Majority of operating leases relate to property leases, with a small number of leases relating to non-freight vehicles and office equipment leases. Lease terms are between 1 to 10 years for property leases. Operating leases for property contain annual rental review clauses. The Group do not have an option to purchase any of the properties or non-freight vehicles at the expiry of any of the contracts.

**18 Earnings per share**

Basic earnings per share is calculated by dividing the profit after tax of the group by the weighted average number of ordinary shares outstanding during the year.

| | Group 2014 | Group 2013 |
|---|---|---|
| Profit after tax ($'000) | 4,786 | 3,397 |
| Weighted average number of ordinary shares | 102 | 102 |
| Basic earnings per share (dollars per share) | 46,922 | 33,304 |
| Diluted earnings per share (dollars per share) | 46,922 | 33,304 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potential ordinary shares with a dilutive effect during the year ended 30 June 2014 (2013: nil).

**19 Related parties**

Related parties include subsidiaries in the Group, the joint venture entity and the Director.

| Related Party | Nature of Transaction | Relationship | 2014 | 2013 |
|---|---|---|---|---|
| Transactions received / (paid) and outstanding balances receivable / (payable) between the Group and related parties: | | | | |
| **Transactions** | | | | |
| United Parcel Service - Fliway (NZ) Limited | Freight and logistics services | Joint Venture | 3,670,935 | 3,669,246 |
| United Parcel Service - Fliway (NZ) Limited | Freight services | Joint Venture | (1,761) | (81,053) |
| United Parcel Service - Fliway (NZ) Limited | Recharge expenses | Joint Venture | 893,203 | 749,553 |
| United Parcel Service - Fliway (NZ) Limited | IATA and Customs expenses | Joint Venture | 8,177,453 | 18,158,424 |
| United Parcel Service - Fliway (NZ) Limited | Net dividend payment | Joint Venture | 837,500 | 697,917 |
| D Hawkesby | Unsecured loan repayment | Managing Director | (400,000) | (900,000) |
| D Hawkesby | Remuneration | Managing Director | (120,000) | (120,000) |
| **Outstanding balances** | | | | |
| United Parcel Service - Fliway (NZ) Limited | Trade receivables | Joint Venture | 492,883 | 1,425,360 |
| United Parcel Service - Fliway (NZ) Limited | Trade payables | Joint Venture | (35,490) | (30,471) |
| D Hawkesby | Unsecured loan | Managing Director | 2,435,900 | 2,835,900 |
| D & G Hawkesby Trust | Unsecured loan | Shareholder | 533,333 | 533,333 |
| Transactions received / (paid) and outstanding balances receivable / (payable) between the Parent Company and related parties: | | | | |
| **Transactions** | | | | |
| Fliway International Limited | Subvention payment received | Subsidiary 100% | 1,147,866 | 980,855 |
| Fliway Transport Limited | Advance to Fliway Group Limited | Subsidiary 100% | 1,496,000 | 1,866,000 |
| D Hawkesby | Unsecured loan repayment | Managing Director | (400,000) | (900,000) |
| **Outstanding balances** | | | | |
| Fliway Group Limited subsidiaries | Advances to Fliway Group Limited | Subsidiary 100% | (5,728,000) | (5,381,000) |
| D Hawkesby | Unsecured loan | Managing Director | 2,435,900 | 2,835,900 |
| D & G Hawkesby Trust | Unsecured loan | Shareholder | 533,333 | 533,333 |

The loans from D Hawkesby and D & G Hawkesby Trust are unsecured, accruing no interest and are subordinated to the ANZ loan facility and cannot be repaid without bank approval.

All joint venture trade transactions are on a fully commercial basis, on end of month following invoice payment terms. Recharge expenses, IATA (International Air Transport Authority) and customs expenses are at cost and payment terms are no later than end of month following invoice. There is no interest charged on any outstanding balances between the joint venture and Fliway Group Limited.

## 20 Investment in subsidiaries

| Name | Principal Activities | Ownership + voting interest 2014 | 2013 |
|---|---|---|---|
| Fliway Holdings Limited | Holding Company - non trading | 100% | 100% |
| Fliway Transport Limited | Transport Services | 100% | 100% |
| Fliway International Limited | Freight Forwarding | 100% | 100% |
| Fliway Logistics Limited | Third Party Logistics | 100% | 100% |

All subsidiaries are incorporated in New Zealand, and have the same balance date of 30 June.

## 21 Investment in joint venture

| Name | Principal Activities | Ownership + voting interest 2014 | 2013 |
|---|---|---|---|
| United Parcel Service - Fliway (NZ) Limited | International Parcel Service | 50% | 50% |

The reporting date of United Parcel Service - Fliway (NZ) Limited is 31 December, matching the UPS Group. For the purpose of applying the equity method of accounting, the financial reports as at 30 June 2014 of United Parcel Service - Fliway (NZ) Limited have been used. New Zealand is the principal place of business for the joint venture.

| | Group 2014 ($'000) | Group 2013 ($'000) |
|---|---|---|
| *Carrying value of joint venture:* | | |
| Carrying value at beginning of period | 1,435 | 1,212 |
| Share of profit | 925 | 974 |
| Dividends received | (899) | (751) |
| Carrying value at end of period | 1,461 | 1,435 |
| | | |
| The carrying value is comprised of | | |
| Cost | 182 | 182 |
| Share of joint venture post-acquisition reserves | 1,279 | 1,253 |
| | 1,461 | 1,435 |
| | | |
| *Joint venture share of net surplus:* | | |
| Share of profit before taxation | 1,284 | 1,352 |
| Share of taxation expense | (359) | (378) |
| Share of profit or loss and total comprehensive income | 925 | 974 |
| | | |
| *Joint venture aggregate amounts:* | | |
| Current assets - cash | 1,542 | 2,006 |
| Current assets - trade debtors and related party receivables | 2,996 | 2,536 |
| Non-current assets | 106 | 86 |
| Total assets | 4,644 | 4,628 |
| | | |
| Current liabilities - trade payables and accruals | 1,544 | 1,602 |
| Current liabilities - tax provision | 131 | 107 |
| Total liabilities | 1,675 | 1,709 |
| | | |
| Revenue | 17,115 | 16,763 |
| Interest income | 22 | 21 |
| Expenses | (14,552) | (14,067) |
| Depreciation and amortisation | (18) | (13) |
| Tax expense | (717) | (757) |
| Profit or loss and total comprehensive income | 1,850 | 1,947 |

Reconciliation of the above summarised financial information to the carrying amount of interest in the joint venture recognised in the consolidated financial statements:

| | 2014 ($'000) | 2013 ($'000) |
|---|---|---|
| Net assets of the joint venture | 2,969 | 2,919 |
| Current assets - trade debtors and related party receivables | 50% | 50% |
| | 1,485 | 1,459 |
| Other adjustments - prior year interest and tax adjustments not yet reflected by the Group | (24) | (24) |
| Carrying amount of the Group's interest in the joint venture | 1,461 | 1,435 |

The joint venture has no commitments or contingent liabilities as at 30 June 2014 (2013: nil).



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## 22 Financial Instruments

**Financial risk management objectives**

The Directors have identified interest rate risk, credit risk and liquidity risk as the key risks faced by the Group.

The Group seeks to minimise the effects of interest rate risk by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Director. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**(i) Fair value of financial instruments**

All financial assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or at fair value are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics or the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in NZ IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described below:

> level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date;

> level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly;

> level 3 inputs are unobservable inputs for the asset or liability.

**(ii) Interest rate risk management**

The Group is exposed to interest rate risk as it borrows at floating interest rates. To manage interest rate risk and volatility the Group provides for interest rate swaps/options to be used, where the Group agrees to exchange at specific intervals the difference between fixed and variable rate interest amounts calculated by reference to a specified notional principal amount. The Group regularly analyses its interest rate risk exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates. As at 30 June 2014 the current bank term loan interest rate was 5.32% based on a leverage ratio less than 2 (maximum term loan interest rate 5.92% if the leverage ratio exceeds 3). The interest rate on bank debt is reset quarterly. At 30 June 2014 52% (2013: 52%) of Group interest bearing borrowings have been converted from floating to fixed rates of interest through the use of interest rate derivatives. All interest rate swaps / options expire 2 September 2018. Terms of the interest rate swaps are included in the table below.

Included in cash and cash equivalents are bank term deposits with a total balance of $6m (2013: $4m) as at 30 June 2014. The Group holds term deposits for up to 4 months earning an average interest rate as at 30 June 2014 of 3.86% (2013: 3.99%), and can draw on these funds at any time.

The following table details the Group's and Company's exposure to interest rate risk at balance sheet date.

| Group | Total ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3months - 1 year ($'000) | 1-2 years ($'000) |
|---|---|---|---|---|---|
| As at 30 June 2014 | | | | | |
| Cash and Cash Equivalents | 8,090 | 8,090 | - | - | - |
| Interest-bearing loans | (19,292) | - | - | (19,292) | - |

| Parent Company | Total ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3months - 1 year ($'000) | 1-2 years ($'000) |
|---|---|---|---|---|---|
| As at 30 June 2014 | | | | | |
| Interest-bearing loans | (19,292) | - | - | (19,292) | - |

| Group | Total ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3months - 1 year ($'000) | 1-2 years ($'000) |
|---|---|---|---|---|---|
| As at 30 June 2013 | | | | | |
| Cash and Cash Equivalents | 5,809 | 5,809 | - | - | - |
| Interest-bearing loans | (19,262) | - | - | - | (19,262) |

| Parent Company | Total ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3months - 1 year ($'000) | 1-2 years ($'000) |
|---|---|---|---|---|---|
| As at 30 June 2013 | | | | | |
| Interest-bearing loans | (19,262) | - | - | - | (19,262) |

The following table details the weighted average effective interest rate of the Group's and Company's financial assets and liabilities at balance date:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 % | 2013 % | 2014 % | 2013 % |
| Interest-bearing loans | 4.86% | 4.68% | 4.86% | 4.68% |
| Cash and cash equivalents | 2.83% | 2.23% | - | - |

Interest rate sensitivity:

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative financial instruments at the end of the reporting period.

For floating rate instruments, the analysis is prepared assuming the amounts of the assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher or lower and all other variables were held constant, the Group's profit for the year ended 30 June 2014 would decrease/increase by $112,000 (2013: $135,000 decrease/increase). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments which include short term deposits (included in cash and cash equivalents) and interest bearing loans.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the yield curves at the end of the reporting period and the credit risk inherent in the contract. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

| | Average contracted fixed rate | | Notional principal value | | Fair value assets (liabilities) | |
|---|---|---|---|---|---|---|
| | 2014 % | 2013 % | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| 2 - 5 years | 4.57% | - | 10,000 | - | 34 | - |
| 5+ years | - | 4.57% | - | 10,000 | - | (152) |

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the wholesale bank bill rate plus a margin. The Group will settle the difference between the fixed and floating interest rate on a net basis with the bank.

The terms of the interest rate swaps reflect the Group's expectation of the Group's interest rate exposures. In deciding the duration of the swaps the Group take into consideration the likely capital structure make up in the near future and the Group's expectation of interest rate movements in the market. On that basis, the Group determined a maturity date of September 2018 for the interest rate swaps was appropriate.

Net gains/losses in relation to movements in the values of the interest rate swaps and interest arising from the bank loan are disclosed in note 28. The Group recognised $96,000 of realised losses (2013: $nil) and $185,000 of unrealised gains (2013: $152,000 unrealised losses) on the interest rate swaps during the reporting period. Interest attributable only to the bank loan are disclosed at note 15. The Group do not apply hedge accounting.

**Financial risk management objectives (cont).**

**(iii) Liquidity risk management**

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group's objective is to maintain an adequate level of cash, bank overdraft facilities, and bank loan facilities. The Group also manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and financial liabilities.

Financial liabilities undiscounted contractual cash flows

Cash flows attributed to payables are based on the earliest date at which the Group is required to pay.

For interest bearing loans, the Group's remaining contractual maturity with agreed repayment periods is presented.

Unsecured loans from related parties below refer to D Hawkesby and the D & G Hawkesby Trust loans.

The table below includes both interest and capital cash flows.

| Group | Weighted average effective interest rate % | Balance Sheet ($'000) | Contractual Cash Flow ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3 months - 1 year ($'000) | 1-5 years ($'000) |
|---|---|---|---|---|---|---|---|
| As at 30 June 2014 | | | | | | | |
| Accounts Payable | - | 5,078 | 5,078 | 5,078 | - | - | - |
| Interest-bearing loan | 4.86% | 19,292 | 19,657 | 79 | 174 | 19,404 | - |
| Unsecured loans from related parties | - | 2,969 | 2,969 | - | - | 2,969 | - |

| Company | Weighted average effective interest rate % | Balance Sheet ($'000) | Contractual Cash Flow ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3 months - 1 year ($'000) | 1-5 years ($'000) |
|---|---|---|---|---|---|---|---|
| As at 30 June 2014 | | | | | | | |
| Related party payables | - | 5,728 | 5,728 | 5,728 | - | - | - |
| Interest-bearing loan | 4.86% | 19,292 | 19,657 | 79 | 174 | 19,404 | - |
| Unsecured loans from related parties | - | 2,969 | 2,969 | - | - | 2,969 | - |

| Group | Weighted average effective interest rate % | Balance Sheet ($'000) | Contractual Cash Flow ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3 months - 1 year ($'000) | 1-5 years ($'000) |
|---|---|---|---|---|---|---|---|
| As at 30 June 2013 | | | | | | | |
| Accounts Payable | - | 5,843 | 5,843 | 5,843 | - | - | - |
| Interest-bearing loan | 4.68% | 19,262 | 20,587 | 75 | 165 | 690 | 19,657 |
| Unsecured loans from related parties | - | 3,369 | 3,369 | - | - | - | 3,369 |

| Company | Weighted average effective interest rate % | Balance Sheet ($'000) | Contractual Cash Flow ($'000) | Less than 1 month ($'000) | 1-3 months ($'000) | 3 months - 1 year ($'000) | 1-5 years ($'000) |
|---|---|---|---|---|---|---|---|
| As at 30 June 2013 | | | | | | | |
| Related party payables | - | 5,381 | 5,381 | 5,381 | - | - | - |
| Interest-bearing loan | 4.68% | 19,262 | 20,587 | 75 | 165 | 690 | 19,657 |
| Unsecured loans from related parties | - | 3,369 | 3,369 | - | - | - | 3,369 |

| Financing facilities | Group 2014 ($'000) | Group 2013 ($'000) |
|---|---|---|
| Bank overdraft facility: | | |
| Amount used | - | - |
| Amount unused | 1,500 | 1,500 |
| | 1,500 | 1,500 |
| Flexible credit facility: | | |
| Amount used | - | - |
| Amount unused | 4,000 | 4,000 |
| | 4,000 | 4,000 |
| Term loan facility: | | |
| Amount used | 19,300 | 19,300 |
| Amount unused | - | - |
| | 19,300 | 19,300 |
| Total funding available: | | |
| Amount used | 19,300 | 19,300 |
| Amount unused | 5,500 | 5,500 |
| | 24,800 | 24,800 |

Subsequent to year end, the Director has signed a Committed Term Sheet (the "Term Sheet") dated 31 October 2014 from the ANZ confirming the terms and conditions of new facilities offered to the Company and Group. The Term Sheet confirms a combined facility of $22.2m, including $12.8m of term facility, $6.5m of revolving credit facility, $1.5m overdraft facility and $1.4m financial guarantee facility, all subject to the Company and Group remaining as a privately owned company. Should the Company and Group complete an initial public offering, the facility is immediately reduced by $2.8m. The new term facility with a term of 3 years was drawndown on 5 November 2014. An initial public offering has not been completed at the date the financial statements are approved by the Director. Interest terms in the new facility are consistent with those in the current term facility, which is based on a floating market rate plus a margin. The agreed margin has remained the same for the term facility and the overdraft facility. The margin on the revolving credit facility increased 0.075%.

**(iv) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Financial instruments that potentially expose the Group and Company to credit risk consist primarily of accounts receivable. The credit risk on cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks with high credit ratings.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including industry references and credit worthiness, company house enquiries and past experience. Credit risk limits and terms are set for each customer. Accounts receivable balances are monitored on an ongoing basis.

**Financial risk management objectives (cont).**

**(iv) Credit risk management (cont).**

The joint venture is a profitable business that is solvent and the Director believes there is no significant credit risk.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

The maximum exposure to credit risk at balance date is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Trade receivables | 10,734 | 10,231 | - | - |
| Cash at bank and on hand | 8,090 | 5,809 | - | - |
| Derivative financial assets | 34 | - | 34 | - |
| Related party receivables | 492 | 1,425 | - | - |
| | 19,350 | 17,465 | 34 | - |

**(v) Foreign currency risk management**

Foreign currency risk is the risk that the value of the Group's assets, liabilities and financial performance will fluctuate due to changes in foreign currency rates. The Group minimises its foreign currency risk by invoicing customers, where possible, in foreign currency to offset any foreign currency payables. The Group's foreign currency is not hedged for this reason, with any net foreign exchange gains / losses taken to the profit or loss. Net foreign exchange gain for 2014 is $8,000 (2013: $17,000 gain). The sensitivity of the Group's profit or loss and equity to fluctuations in foreign currencies is not expected to be material.

The table below illustrates the foreign currency make-up of the Group's receivables and payables balances.

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| *Foreign currency receivables as at 30 June:* | | | | |
| USD | 238 | 312 | - | - |
| AUD | 67 | 108 | - | - |
| Other | - | - | - | - |
| *Foreign currency payables and accrued expenses as at 30 June:* | | | | |
| USD | (295) | (226) | - | - |
| AUD | (146) | (168) | - | - |
| Other | (22) | (30) | - | - |

**(vi) Capital management**

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 15, inter-company receivables and payables as disclosed in note 19, cash and cash equivalents, and equity, comprising issued capital and retained earnings as disclosed in notes 14 and 25.

Capital requirements are imposed on the Group by the bank. When the Group does not comply with these requirements, the bank may cancel the facility immediately with all amounts due and payable upon demand. During the year, the Group complied with its capital requirements. Key capital requirements are as follows:
>Interest cover ratio greater than 3.5
>Leverage ratio less than 3
>Net working capital to gross sales must be less than 10%
>Capital expenditure within the current year budget approved by the bank

The Director reviews the capital structure on a regular basis. As part of this review the Director considers the cost of capital and the risks associated with each class of capital. The Director will balance the overall capital structure through the payment of dividends, new share issues, and the issue of new debt or the redemption of existing debt.

The Company's overall strategy remains unchanged from 2013.

**(vii) Financial instruments at fair value**

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped into levels one to three depending on the degree to which fair value is observable.

Refer to note 22(ii) for information on valuation methodolgy for level 2 financial instruments.

| Group | LEVEL 1 ($'000) | LEVEL 2 ($'000) | LEVEL 3 ($'000) | TOTAL ($'000) |
|---|---|---|---|---|
| 2014 | | | | |
| Derivatives classified as fair value through profit or loss | - | 34 | - | 34 |
| Total assets | - | 34 | - | 34 |
| 2013 | | | | |
| Derivatives classified as fair value through profit or loss | - | (152) | - | (152) |
| Total liabilities | - | (152) | - | (152) |

FLIWAY GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *Continued*

FOR THE YEAR ENDED 30 JUNE 2014

**Financial risk management objectives (cont).**

**(viii) Categories of financial assets and financial liabilities**

Group

| As at 30 June 2014 | Loans and Receivables ($'000) | Derivatives classified as fair value through profit or loss ($'000) | Financial liabilities at amortised cost ($'000) | Total ($'000) |
|---|---|---|---|---|
| *Assets* | | | | |
| Cash and cash equivalents | 8,090 | - | - | 8,090 |
| Trade receivables | 10,734 | - | - | 10,734 |
| Related party receivables | 492 | - | - | 492 |
| Derivative financial instruments | - | 34 | - | 34 |
| *Total financial assets* | 19,316 | 34 | - | 19,350 |
| *Liabilities* | | | | |
| Accounts payable & accrued expenses | - | - | 4,780 | 4,780 |
| Related party payable | - | - | 35 | 35 |
| Interest-bearing loans | - | - | 19,292 | 19,292 |
| Unsecured loans | - | - | 2,969 | 2,969 |
| *Total financial liabilities* | - | - | 27,076 | 27,076 |

Group

| As at 30 June 2013 | Loans and Receivables ($'000) | Derivatives classified as fair value through profit or loss ($'000) | Financial liabilities at amortised cost ($'000) | Total ($'000) |
|---|---|---|---|---|
| *Assets* | | | | |
| Cash and cash equivalents | 5,809 | - | - | 5,809 |
| Trade receivables | 10,231 | - | - | 10,231 |
| Related party receivables | 1,425 | - | - | 1,425 |
| *Total financial assets* | 17,465 | - | - | 17,465 |
| *Liabilities* | | | | |
| Accounts payable & accrued expenses | - | - | 5,492 | 5,492 |
| Related party payable | - | - | 30 | 30 |
| Interest-bearing loans | - | - | 19,262 | 19,262 |
| Unsecured loans | - | - | 3,369 | 3,369 |
| Derivative financial instruments | - | 152 | - | 152 |
| *Total financial liabilities* | - | 152 | 28,153 | 28,305 |

Company

| As at 30 June 2014 | Loans and Receivables ($'000) | Derivatives classified as fair value through profit or loss ($'000) | Financial liabilities at amortised cost ($'000) | Total ($'000) |
|---|---|---|---|---|
| *Assets* | | | | |
| Derivative financial instruments | - | 34 | - | 34 |
| *Total financial assets* | - | 34 | - | 34 |
| *Liabilities* | | | | |
| Related party payables | - | - | 5,728 | 5,728 |
| Interest-bearing loans | - | - | 19,292 | 19,292 |
| Unsecured loans | - | - | 2,969 | 2,969 |
| *Total financial liabilities* | - | - | 27,989 | 27,989 |

Company

| As at 30 June 2013 | Loans and Receivables ($'000) | Derivatives classified as fair value through profit or loss ($'000) | Financial liabilities at amortised cost ($'000) | Total ($'000) |
|---|---|---|---|---|
| *Liabilities* | | | | |
| Related party payables | - | - | 5,381 | 5,381 |
| Interest-bearing loans | - | - | 19,262 | 19,262 |
| Unsecured loans | - | - | 3,369 | 3,369 |
| Derivative financial instruments | - | 152 | - | 152 |
| *Total financial liabilities* | - | 152 | 28,012 | 28,164 |

**23 Subsequent events**

On the 5 November 2014 the Director has signed a Comitted Term Sheet from the ANZ confirming the terms and conditions of new facilities offered to the Company and Group. The terms and conditions are outlined in note 22 (iii).

The ordinary shareholder of the Company and Group is considering an initial public offering and a combination of share sell down with raising of new capital. Redeemable preference shares detailed in note 14 were fully redeemed at cost on 6 October 2014. At the date the financial statements are approved by the Director, a deciscion on an initial public offering has not been completed.

**24 Contingent liabilities**

At balance date there remains a contingent liability in relation to a logistics claim, of $487,531 plus GST. Management disputes this claim and is currently obtaining legal advice and at the date of signing the financial statements the quantification of the actual liability is uncertain.

As at 30 June 2014 the bank had issued Fliway Group Limited a $900,000 bond in favour of Macquarie Goodman in relation to the lease of 66 Westney Road, Auckland expiring 30/08/2018.

**25 Retained earnings / (deficit)**

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Balance at beginning of the year | 14,005 | 10,608 | (2,483) | (2,363) |
| Total comprehensive income | 4,787 | 3,397 | 151 | (120) |
| Balance at end of the year | 18,792 | 14,005 | (2,332) | (2,483) |

**27 Compensation of key management personnel**

The remuneration of directors and other members of key management personnel during the year was as follows:

| | 2014 ($'000) | 2013 ($'000) |
|---|---|---|
| Short-term benefits | 1,433 | 1,445 |
| Other long-term benefits | 3 | 801 |
| Termination Benefits | 15 | - |
| | 1,451 | 2,246 |

**28 Net gains / (losses) arising from derivative financial instruments**

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 ($'000) | 2013 ($'000) | 2014 ($'000) | 2013 ($'000) |
| Unrealised gain / (losses) | 185 | (152) | 185 | (152) |
| Realised gain / (losses) | (96) | - | (96) | - |
| Balance at end of the year | 89 | (152) | 89 | (152) |

**29 Segment Reporting**

NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group operates in the domestic supply chain and international air and ocean freight.

The Group's operations can be broken down into the following operating segments

**Domestic** - revenue earned from providing goods transport services within New Zealand
**International** - revenue earned from moving freight between international countries including New Zealand.
**Head Office** - comprises financing and administrative support to other operating segments
**Joint Venture** – represents equity method accounted joint venture between the Group and UPS-Fliway.

The operating segments identified above also represent the Group's reportable segments. The reportable segments reflect the structure and internal reporting used by the managing director as the chief decision maker to assist strategic decision making and resource allocation.

| 2014 | Domestic ($'000) | International ($'000) | Joint Venture ($'000) | Head Office ($'000) | Inter-Segment ($'000) | Group ($'000) |
|---|---|---|---|---|---|---|
| Operating Revenue | | | | | | |
| Sales to customers outside the Group | 52,608 | 28,903 | - | - | - | 81,511 |
| Inter-segment sales | 197 | 15 | - | - | (212) | - |
| **Total Revenue** | 52,805 | 28,918 | - | - | (212) | 81,511 |
| **Segment profit** (refer below) | 8,007 | 3,765 | 1,282 | (4,153) | - | 8,901 |
| Balance Sheet | | | | | | |
| Segment Assets | 34,375 | 8,353 | 1,953 | 8,500 | - | 53,181 |
| Segment Liabilities | 6,297 | 2,075 | 35 | 20,953 | - | 29,390 |
| Other Segment Information | | | | | | |
| Depreciation and amortisation* | 1,254 | 129 | - | 62 | - | 1,445 |
| Share of joint venture profit | - | - | 925 | - | - | 925 |
| Share of joint venture interest, depreciation, tax | - | - | 357 | - | - | 357 |
| Disbursement costs | 2,157 | 20,332 | - | - | - | 22,489 |
| Personnel costs | 21,418 | 3,484 | - | 2,595 | - | 27,497 |
| System maintenance | 143 | 142 | - | 870 | - | 1,155 |
| Interest received* | - | - | - | 197 | - | 197 |
| Interest paid* | - | - | - | 938 | - | 938 |
| Property, plant, equipment and computer software additions* | 3,177 | 23 | - | 461 | - | 3,661 |

| 2013 | Domestic ($'000) | International ($'000) | Joint Venture ($'000) | Head Office ($'000) | Inter-Segment ($'000) | Group ($'000) |
|---|---|---|---|---|---|---|
| Operating Revenue | | | | | | |
| Sales to customers outside the Group | 48,890 | 25,501 | - | - | - | 74,391 |
| Inter-segment sales | 141 | 72 | - | - | (213) | - |
| **Total Revenue** | 49,031 | 25,573 | - | - | (213) | 74,391 |
| **Segment profit** (refer below) | 7,464 | 2,806 | 1,348 | (3,569) | - | 8,049 |
| Balance Sheet | | | | | | |
| Segment assets | 32,039 | 8,207 | 2,860 | 6,214 | - | 49,320 |
| Segment liabilities | 5,617 | 3,361 | 30 | 21,307 | - | 30,315 |
| Other Segment Information | | | | | | |
| Depreciation and amortisation* | 1,186 | 69 | - | 47 | - | 1,302 |
| Share of joint venture profit | - | - | 974 | - | - | 974 |
| Share of joint venture interest, depreciation, tax | - | - | 374 | - | - | 374 |
| Disbursement costs | 750 | 18,371 | - | - | - | 19,121 |
| Personnel costs | 19,517 | 3,139 | - | 2,408 | - | 25,064 |
| System maintenance | 129 | 127 | - | 890 | - | 1,146 |
| Interest received* | - | - | - | 108 | - | 108 |
| Interest paid* | - | - | - | 902 | - | 902 |
| Property, plant, equipment and computer software additions* | 1,150 | 257 | - | 43 | - | 1,450 |

* Excluded from segment profit

*Reconciliation between segment profit and the Statement of Comprehensive Income*

| | 2014 ($'000) | 2013 ($'000) |
|---|---|---|
| **Segment profit** | 8,901 | 8,049 |
| Net gains / (losses) arising from derivative instruments | 89 | (152) |
| Gross up 50% joint venture interest, tax, depreciation** | (357) | (375) |
| Loss on disposal property plant equipment | (30) | (56) |
| Depreciation and amortisation | (1,445) | (1,302) |
| Non-recurring costs - long term benefits to key management personnel | - | (801) |
| Non-recurring costs - other costs | (20) | (88) |
| Other operating costs | (91) | (95) |
| Operating profit before financing costs | 7,047 | 5,180 |

The Group uses segment profit to evaluate the operating performance of the business over time. In evaluating segment profit management makes adjustments for the impact of non-recurring costs, assets disposals and derivative gains losses, financing, depreciation / amortisation and tax position. Adjustment is also made to back out the Group's 50% share of the joint venture's interest income, depreciation / amortisation and tax expense.
All segments assets are geographically based in New Zealand, and all services provided are centralised in New Zealand.
Transactions between segments are entered into on a fully commercial basis. Segment assets and liabilities are disclosed net of inter-company balances.
The Groups top 5 customers contribute 31% (2013: 30%) of Group revenue, the total revenue of these customers is $25m (2013: $22m), this is included in the Domestic and International segments above.

** Gross up 50% joint venture interest, tax, depreciation derived as follows:

| | Note | 2014 ($'000) | 2013 ($'000) |
|---|---|---|---|
| Interest income | *(19)* | (22) | (21) |
| Depreciation and amortisation | *(19)* | 18 | 13 |
| Tax expense | *(19)* | 717 | 757 |
| | | 713 | 749 |
| Group share 50% | | 357 | 374 |

Deloitte.

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF**
**FILWAY GROUP LIMITED**

**Report on the Financial Statements**

We have audited the financial statements of Fliway Group Limited and group on pages 3 to 32, which comprise the consolidated and separate statements of financial position of Fliway Group Limited, as at 30 June 2014, the consolidated and separate statements of comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**Director's Responsibility for the Financial Statements**

The Director is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibilities**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm carries out other assignments for Fliway Group Limited in the areas of taxation advice and taxation return assistance and due diligence services. In addition to this, partners and employees of our firm deal with Fliway Group Limited and group subsidiaries on normal terms within the ordinary course of trading activities of the business of Fliway Group Limited and group. These services have not impaired our independence as auditor of Fliway Group Limited and group. The firm has no other relationship with, or interest in, Fliway Group Limited or any of its subsidiaries.

**Opinion**

In our opinion, the financial statements on pages 3 to 32:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of Fliway Group Limited and group as at 30 June 2014, results of their operations and cash flows for the year then ended.

**Report on Other Legal and Regulatory Requirements**

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2014:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Fliway Group Limited as far as appears from our examination of those records.

Deloitte.

**Chartered Accountants**
10 November 2014
Auckland, New Zealand

# APPENDIX 3: UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2014

# FLIWAY GROUP LIMITED

## UNAUDITED CONSOLIDATED INTERIM REPORT

## FOR THE 6 MONTHS ENDED 31 DECEMBER 2014

**Contents** **Page**

## FLIWAY GROUP LIMITED

## UNAUDITED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

## FOR THE 6 MONTHS ENDED 31 DECEMBER 2014

| | Note | Group<br>6 mths ended<br>31 Dec 2014<br>(Unaudited)<br>($'000) | <br>6 mths ended<br>31 Dec 2013<br>(Unaudited)<br>($'000) |
|---|---|---|---|
| Revenue from operating activities | | 44,371 | 42,658 |
| **Total operating revenue** | | 44,371 | 42,658 |
| Disbursement costs | | (11,903) | (12,008) |
| Freight costs | | (2,770) | (1,938) |
| Depreciation and amortisation | | (871) | (650) |
| Rental and leasing charges | | (3,628) | (3,373) |
| Personnel costs | *(1)* | (14,788) | (13,623) |
| Vehicle expenses | | (3,544) | (3,606) |
| Other operating expenses | *(2)* | (3,644) | (3,182) |
| Net gains / (losses) arising from derivative instruments | *(4)* | (162) | 176 |
| **Operating profit before share of joint venture profit and financing costs** | | 3,061 | 4,454 |
| Share of joint venture profit | | 602 | 374 |
| **Operating profit before financing costs** | | 3,663 | 4,828 |
| Interest received | | 69 | 82 |
| Interest paid | | (541) | (463) |
| **Net financing costs** | | (472) | (381) |
| **Profit before taxation** | | 3,191 | 4,447 |
| **Taxation (expense)** | | (771) | (1,087) |
| **Net profit & total comprehensive income for the period** | | 2,420 | 3,360 |
| **Earnings per share** | | | |
| Basic earnings per share (dollars per share) | *(5)* | 23,725 | 32,938 |
| Diluted earnings per share (dollars per share) | *(5)* | 23,725 | 32,938 |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

**FLIWAY GROUP LIMITED**

**UNAUDITED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

**FOR THE 6 MONTHS ENDED 31 DECEMBER 2014**

| **Group** | Note | Issued Capital (Unaudited) ($'000) | Retained Earnings (Unaudited) ($'000) | Total (Unaudited) ($'000) |
|---|---|---|---|---|
| Balance at 1 Jul 13 | | 5,000 | 14,005 | 19,005 |
| Net Profit and total comprehensive income | | - | 3,360 | 3,360 |
| Dividends paid | | - | - | - |
| Balance at 31 Dec 13 | | 5,000 | 17,365 | 22,365 |
| Balance at 1 Jul 14 | | 5,000 | 18,791 | 23,791 |
| Net Profit and total comprehensive income | | - | 2,420 | 2,420 |
| Dividends paid | | - | - | - |
| Redemption of redeemable preference shares | *(15)* | (5,000) | - | (5,000) |
| Balance at 31 Dec 14 | | - | 21,211 | 21,211 |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

**FLIWAY GROUP LIMITED**

**UNAUDITED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2014**

| | Note | Group 31 Dec 2014 (Unaudited) ($'000) | 30 Jun 2014 (Audited) ($'000) |
|---|---|---|---|
| **Current assets** | | | |
| Cash at bank and on hand | | 2,634 | 8,090 |
| Accounts receivable | | 11,456 | 10,734 |
| Related party receivables | *(6)* | 520 | 492 |
| Prepaid expenses | | 719 | 362 |
| Derivative financial instruments | *(11)* | - | 34 |
| **Total current assets** | | 15,329 | 19,712 |
| **Non-current assets** | | | |
| Deferred taxation asset | | 379 | 388 |
| Property, plant and equipment | *(7)* | 10,549 | 8,045 |
| Intangibles | *(8)* | 383 | 529 |
| Investment in joint venture | | 1,613 | 1,461 |
| Goodwill | | 23,046 | 23,046 |
| **Total non-current assets** | | 35,970 | 33,469 |
| **Total assets** | | 51,299 | 53,181 |
| **Current liabilities** | | | |
| Accounts payable & accrued expenses | | 5,792 | 5,078 |
| Provisions | *(9)* | 680 | 554 |
| Related party payables | *(6)* | 40 | 35 |
| Employee benefits | | 1,187 | 1,047 |
| Taxation payable | | 212 | 415 |
| Interest-bearing loans | *(10)* | 6,800 | 19,292 |
| Unsecured loan (D Hawkesby) | *(6)* | - | 2,436 |
| Unsecured loan (D & G Hawkesby Trust) | *(6)* | - | 533 |
| Derivative financial instruments | *(11)* | 108 | - |
| **Total Current liabilities** | | 14,819 | 29,390 |
| **Non-current liabilities** | | | |
| Interest-bearing loans | *(10)* | 12,500 | - |
| Unsecured loan (D Hawkesby) | *(6)* | 2,236 | - |
| Unsecured loan (D & G Hawkesby Trust) | *(6)* | 533 | - |
| **Total non-current liabilities** | | 15,269 | - |
| **Total liabilities** | | 30,088 | 29,390 |
| **Net assets** | | 21,211 | 23,791 |
| **Equity** | | | |
| Issued capital | *(15)* | - | 5,000 |
| Retained earnings | | 21,211 | 18,791 |
| **Total equity** | | 21,211 | 23,791 |

These unaudited interim financial statements are authorised by:

DIRECTOR Duncan Hawkesby
For and on behalf of the Board 5th March 2015

DIRECTOR Alan Isaac
For and on behalf of the Board 5th March 2015

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

# FLIWAY GROUP LIMITED

## UNAUDITED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

## FOR THE 6 MONTHS ENDED 31 DECEMBER 2014

| | Note | Group<br>6 mths ended 31 Dec 2014 (Unaudited) ($'000) | 6 mths ended 31 Dec 2013 (Unaudited) ($'000) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 44,760 | 41,926 |
| Interest received | | 69 | 82 |
| Receipts from joint venture | | 2,936 | 10,779 |
| Payments to suppliers and employees | | (43,708) | (48,341) |
| Interest paid | | (540) | (463) |
| Income taxes paid | | (933) | (878) |
| **Net cash generated by operating activities** | *(3)* | 2,584 | 3,105 |
| **Cash flows from investing activities** | | | |
| Dividend received from joint venture | | 419 | 388 |
| Payments for property, plant and equipment | | (3,259) | (1,048) |
| **Net cash (used in) provided by investing activities** | | (2,840) | (660) |
| **Cash flows from financing activities** | | | |
| Repayment of Related Party borrowings | | (200) | (400) |
| Redemption of Redeemable Preference Shares | *(15)* | (5,000) | - |
| **Net cash used in financing activities** | | (5,200) | (400) |
| **Net decrease in cash and cash equivalents** | | (5,456) | 2,045 |
| Cash and cash equivalents at the beginning of the period | | 8,090 | 5,809 |
| **Cash and cash equivalents at the end of the period** | | 2,634 | 7,854 |

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

FLIWAY GROUP LIMITED

CONDENSED NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE 6 MONTHS ENDED 31 DECEMBER 2014

**Statement of compliance**

Fliway Group Limited (the "Company") is a profit oriented company registered under the Companies Act 1993 and domiciled and incorporated in New Zealand. Its principal activities are transportation of goods, customer logistics solutions and freight forwarding.

The unaudited financial statements are presented for the company and its subsidiaries and joint venture company (together the "Group") for the six month period ended 31 December 2014. The financial statements were authorised for issue by the Director on 5th March 2015.

**Basis of preparation**

The unaudited condensed interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and New Zealand equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34). In complying with NZ IAS 34, these statements comply with International Accounting Standards 34 Interim Financial Reporting (IAS 34).

The preparation of unaudited interim financial statements requires the Director and management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. These estimates and associated assumptions are based on market data, historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the company's financial statements for the year ended 30 June 2014.

The unaudited interim financial statements have been prepared on a historical cost basis except for derivative financial instruments that are measured at fair values at the end of each reporting period.

The functional and presentation currency is New Zealand dollars (NZD). Numbers in the unaudited interim financial statements are presented in thousands of dollars (000's) unless otherwise stated.

**Going concern**

The unaudited interim financial statements have been prepared on a going concern basis. The Director believes the preparation of the unaudited interim financial statements using the going concern assumption which depends on ongoing access to sufficient funding to meet the Group's requirements, is appropriate. In addition, he has considered the circumstances which are likely to affect the Group and Company during the period of one year from the date these unaudited interim financial statements are approved, and to circumstances which he believes will occur after that date which could affect the validity of the going concern assumption.

**Seasonality of operations**

The Group experiences lower profitability January and February during the holiday season. Peak periods are typically through new product release periods in retail for May and November.

**Application of new and revised International Financial Reporting Standards (IFRS's)**

The following standards and amendments have been adopted by the Group and Company in the preparation of these unaudited interim financial statements:

> NZ IFRIC 21 Levies. The impact on the Group is not material.

> NZ IAS 32 Offsetting financial assets and financial liabilities. The Group do not offset financial assets and financial liabilities in the statement of financial position.

Standards and amendments, which are available for early adoption and may impact the financial statements of the Group in future periods but that have not been applied by the Group in the preparation of these unaudited interim financial statements include :

> NZ IFRS 9 Financial Instruments;

> NZ IFRS 15 Revenue from Contracts with Customers;

> Amendments to NZ IAS 16 and NZ IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group have not yet performed a detailed analysis to determine the impact on the financial statements of the Group of adopting these standards.

All other standards and amendments which are not yet mandatory for adoption are not expected to have any significant impact on the financial statements of the Group.

There have been no changes in accounting policies since 30 June 2014. The accounting policies set out in the Group's financial statements for the year ended 30 June 2014 and methods of computation applied in those financial statements, have been applied consistently to all periods presented in these unaudited interim financial statements.

FLIWAY GROUP LIMITED

CONDENSED NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE 6 MONTHS ENDED 31 DECEMBER 2014

| | | Group | |
|---|---|---|---|
| | | 6 mths ended 31 Dec 2014 (Unaudited) ($'000) | 6 mths ended 31 Dec 2013 (Unaudited) ($'000) |
| 1 | **Personnel expenses** | | |
| | Salaries and wages | 12,132 | 11,534 |
| | Defined contribution plan | 257 | 223 |
| | Other employee benefits | 2,399 | 1,866 |
| | | 14,788 | 13,623 |

| | | Group | |
|---|---|---|---|
| | | 6 mths ended 31 Dec 2014 (Unaudited) ($'000) | 6 mths ended 31 Dec 2013 (Unaudited) ($'000) |
| 2 | **Other operating expenses** | | |
| | *Other operating expenses include the following items:* | | |
| | Fees paid to auditors - audit of the full financial statements | 46 | 37 |
| | Fees paid to auditors - taxation advice and tax return assistance | 13 | 14 |
| | Loss / (gain) on disposal - property plant equipment | 29 | (40) |
| | Impairment loss on receivables | 30 | 20 |
| | Foreign exchange (gain) / loss | (13) | (7) |
| | System maintenance | 589 | 544 |
| | Other expenses | 2,950 | 2,614 |
| | | 3,644 | 3,182 |

3 **Reconciliation of Net Profit after Tax with Cash Flows from Operating Activities**

| | Group | |
|---|---|---|
| | 6 mths ended 31 Dec 2014 (Unaudited) ($'000) | 6 mths ended 31 Dec 2013 (Unaudited) ($'000) |
| Net profit after tax | 2,420 | 3,360 |
| Loss on sale or disposal of non current assets | 29 | (40) |
| Depreciation and amortisation | 871 | 650 |
| Share of joint venture net profit | (602) | (374) |
| Increase / (decrease) in current tax liabilities | (202) | 178 |
| Decrease / (increase) in deferred tax assets | 9 | - |
| Increase / (decrease) in interest bearing liabilities | 8 | 15 |
| Changes in working capital | | |
| *(Increase) / Decrease in assets:* | | |
| Current receivables | (682) | (1,443) |
| Prepayments | (357) | (263) |
| Related party receivables | (27) | 1,060 |
| *Increase / (decrease) in liabilities:* | | |
| Current payables and accruals | 667 | (1) |
| Current provisions | 132 | 44 |
| Current employee benefits | 140 | 99 |
| Related party payables | 5 | 8 |
| Derivative financial instruments | 142 | (220) |
| Classified as investing activities | 31 | 31 |
| Net cash generated by operating activities | 2,584 | 3,104 |

| | | Group | |
|---|---|---|---|
| | | 6 mths ended 31 Dec 2014 (Unaudited) ($'000) | 6 mths ended 31 Dec 2013 (Unaudited) ($'000) |
| 4 | **Net gains / (losses) arising from derivative financial instruments** | | |
| | Unrealised gains / (losses) | (142) | 220 |
| | Realised gains / (losses) | (20) | (44) |
| | | (162) | 176 |

5 **Earnings per share**

Basic earnings per share is calculated by dividing the profit after tax of the group by the weighted average number of ordinary shares outstanding during the year.

| | Group | |
|---|---|---|
| | 6 mths ended 31 Dec 2014 (Unaudited) ($'000) | 6 mths ended 31 Dec 2013 (Unaudited) ($'000) |
| Profit after tax ($'000) | 2,420 | 3,360 |
| Weighted average number of ordinary shares | 102 | 102 |
| Basic earnings per share (dollars per share) | 23.725 | 32.938 |
| Diluted earnings per share (dollars per share) | 23.725 | 32.938 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potential ordinary shares with a dilutive effect during the 6 months ended 31 December 2014 (2013: nil).

**6 Related parties**

Related parties include subsidiaries in the Group, the joint venture entity and the Director

| Related Party | Nature of Transaction | Relationship | Group 6 mths ended 31 Dec 2014 (Unaudited) | Group 6 mths ended 31 Dec 2013 (Unaudited) |
|---|---|---|---|---|
| Transactions received (paid) and outstanding balances receivable (payable) between the Group and related parties: | | | | |
| **Transactions** | | | | |
| United Parcel Service - Fliway (NZ) Limited | Freight and logistics services | Joint Venture | 2,246,280 | 1,712,645 |
| United Parcel Service - Fliway (NZ) Limited | Freight services | Joint Venture | (77,636) | (74,881) |
| United Parcel Service - Fliway (NZ) Limited | Recharge expenses | Joint Venture | 415,330 | 396,925 |
| United Parcel Service - Fliway (NZ) Limited | IATA and Customs expenses | Joint Venture | 508,242 | 7,602,356 |
| United Parcel Service - Fliway (NZ) Limited | Net dividend payment | Joint Venture | 418,750 | 418,750 |
| D Hawkesby | Remuneration | Managing Director | (60,000) | (60,000) |
| D Hawkesby | Unsecured loan repayment | Managing Director | (200,000) | (400,000) |

| Related Party | Nature of Transaction | Relationship | Group 6 mths ended 31 Dec 2014 (Unaudited) | Group 30 06 2014 (Audited) |
|---|---|---|---|---|
| **Outstanding balances** | | | | |
| United Parcel Service - Fliway (NZ) Limited | Trade receivables | Joint Venture | 519,629 | 492,883 |
| United Parcel Service - Fliway (NZ) Limited | Trade payables | Joint Venture | (40,274) | (35,490) |
| D Hawkesby | Unsecured loan | Managing Director | 2,235,900 | 2,435,900 |
| D & G Hawkesby Trust | Unsecured loan | Shareholder | 533,333 | 533,333 |

The loans from D Hawkesby and D & G Hawkesby Trust are unsecured, accruing no interest and are subordinated to the ANZ loan facility and cannot be repaid without bank approval.

All joint venture trade transactions are on a fully commercial basis, on end of month following invoice payment terms. Recharge expenses, IATA (International Air Transport Authority) and customs expenses are at cost and payment terms are no later than end of month following invoice. There is no interest charged on any outstanding balances between the joint venture and Fliway Group.

**7 Property, plant and equipment**

| Six months ended 31 Dec 2014 | Group At Cost ($'000) | Accumulated Depreciation ($'000) | Net Book Value ($'000) | Depreciation ($'000) |
|---|---|---|---|---|
| Office equipment | 2,337 | (2,087) | 250 | 44 |
| Furniture and fittings | 2,184 | (1,645) | 539 | 38 |
| Plant and equipment | 2,478 | (1,537) | 941 | 69 |
| Vehicles | 16,140 | (8,285) | 7,855 | 624 |
| Capital work in progress | 964 | - | 964 | - |
| | 24,103 | (13,554) | 10,549 | 775 |

| Twelve months ended 30 June 2014 | Group At Cost ($'000) | Accumulated Depreciation ($'000) | Net Book Value ($'000) | Depreciation ($'000) |
|---|---|---|---|---|
| Office equipment | 2,247 | (2,045) | 202 | 95 |
| Furniture and fittings | 2,151 | (1,607) | 544 | 85 |
| Plant and equipment | 2,425 | (1,478) | 947 | 118 |
| Vehicles | 14,957 | (8,737) | 6,220 | 951 |
| Capital work in progress | 132 | - | 132 | - |
| | 21,912 | (13,867) | 8,045 | 1,249 |

**8 Intangibles**

| Six months ended 31 Dec 2014 | Group At Cost ($'000) | Accumulated Depreciation ($'000) | Net Book Value ($'000) | Depreciation ($'000) |
|---|---|---|---|---|
| Computer software and licences | 2,135 | (1,752) | 383 | 96 |
| Customer list - Logic Distribution Ltd | 67 | (67) | - | - |
| | 2,202 | (1,819) | 383 | 96 |

| Twelve months ended 30 June 2014 | Group At Cost ($'000) | Accumulated Depreciation ($'000) | Net Book Value ($'000) | Depreciation ($'000) |
|---|---|---|---|---|
| Computer software and licences | 2,118 | (1,656) | 462 | 196 |
| Customer list - Logic Distribution Ltd | 67 | - | 67 | - |
| | 2,185 | (1,656) | 529 | 196 |

| | | Group | |
|---|---|---|---|
| | | 31 Dec 2014 (Unaudited) ($'000) | 30 Jun 2014 (Audited) ($'000) |
| 9 | **Provisions** | | |
| | Opening Balance | 554 | 276 |
| | Release of previous year provisions | (239) | (133) |
| | Provisions recognised during financial period | 1,188 | 1,190 |
| | Provisions satisfied during financial period | (823) | (779) |
| | | 680 | 554 |

| | | Group | |
|---|---|---|---|
| | | 31 Dec 2014 (Unaudited) ($'000) | 30 Jun 2014 (Audited) ($'000) |
| 10 | **Interest-bearing loans** | | |
| | Current - Secured | | |
| | ANZ Loan | - | 19,292 |
| | ANZ Loan - FCF Facility | - | - |
| | | - | 19,292 |
| | Non-current - Secured | | |
| | ANZ Loan | 17,800 | - |
| | ANZ Loan - FCF Facility | 1,500 | - |
| | | 19,300 | - |
| | Bank loans | 19,300 | 19,292 |

(a) Flexible interest rate term facility matured on 6 October 2014 and was extended for another 3 year term Interest is payable monthly in arrears, during the 6 month period ended 31 December 2014 the interest rate ranged between 5.32% and 5.60% per annum (Six months ended 31 Dec 2013: 4.58% and 5.32%) excluding the impact of any interest rate swaps / options

(b) The Group intends to pay down the ANZ facility by $5.3 million to $12.5 million using a portion of the proceeds of its planned initial public offering. The facility agreement provides that a permanent reduction of the total facility of $2.8 million will be applied upon completion of the initial public offering.

(c) All loan covenants have been met during the period ended 31 December 2014

| | | Group | |
|---|---|---|---|
| 11 | **Derivative financial instruments - fair value** | 31 Dec 2014 (Unaudited) ($'000) | 30 Jun 2014 (Audited) ($'000) |
| | Interest rate swaps | (77) | 28 |
| | Interest rate options | (31) | 6 |
| | | (108) | 34 |

The Group have interest rate swaps and options to hedge against the interest exposure on the term loans. Interest rate swaps and options are classified as level 2 financial instruments measured at fair value after initial recognition. refer to note 10(a).

**12 Subsequent events**

On 26th February 2015, Alan Raymond Isaac and Craig Hamilton Stobo were appointed as Directors of the Group.

The Group is in the process of implementing an initial public offering. At the date the unaudited interim financial statements are approved by the Directors, the initial public offering has not been completed.

In connection with the proposed initial public offering, the shareholders have entered into a deed of indemnity in favour of Fliway (the Selling Shareholder Indemnity) dated 5th March 2015. Under the Selling Shareholder Indemnity, the shareholders have agreed to indemnify Fliway against any loss of earnings as a result of a third party claim relating to an event that occurred before allotment of shares. However, claims against Fliway that arise in the ordinary course of its day-to-day activities as a result of the loss or damage to goods or inventory are excluded from the Selling Shareholder Indemnity. A claim is also excluded to the extent Fliway recovers proceeds under its insurance policies. Fliway must not make a claim under the Selling Shareholder Indemnity unless the amount of the claim exceeds $250,000. The Selling Shareholders' liability under the Selling Shareholder Indemnity is limited to an aggregate maximum amount of $4million. The limit reduces annually to $nil by 2020.

The Selling Shareholders Indemnity will terminate if Fliway ceases to be listed on the NZX Main Board as a result of:
(a) a person or group of associated persons exercising compulsory acquisition rights and acquiring ownership of all Fliway's shares;
(b) the implementation of a scheme of arrangement under which Fliway is not the surviving entity; or
(c) any other similar control transaction.

**13 Contingent liabilities**

As at 31 December 2014 there remains a contingent liability in relation to a logistics claim, of $778,872 plus interest. The former customer has indicated its intention to pursue a claim under the dispute resolution terms of its contracts with Fliway which provide for mediation and or arbitration. Fliway intends to defend the claim. At the date of signing the unaudited interim financial statements the quantification of the actual liability is uncertain.

As at 31 December 2014 the bank had issued Fliway Group Limited a $900,000 bond in favour of Macquarie Goodman in relation to the lease of 66 Westney Road, Auckland expiring 30 08 2018.

## 14 Segment reporting

NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group operates in the domestic supply chain and international air and ocean freight.

The Group's operations can be broken down into the following operating segments.

**Domestic** - revenue earned from providing goods transport services within New Zealand.
**International** - revenue earned from moving freight between international countries including New Zealand.
**Head Office** - comprises financing and administrative support to other operating segments.
**Joint Venture** - represents equity method accounted joint venture between the Group and UPS-Fliway.

The operating segments identified above also represent the Group's reportable segments. The reportable segments reflect the structure and internal reporting used by the managing director as the chief decision maker to assist strategic decision making and resource allocation

| Six months ended 31 Dec 2014 | Domestic ($'000) | International ($'000) | Joint Venture ($'000) | Head Office ($'000) | Inter-Segment ($'000) | Group ($'000) |
|---|---|---|---|---|---|---|
| Operating Revenue | | | | | | |
| Sales to customers outside the Group | 29,428 | 14,943 | - | - | - | 44,371 |
| Inter-segment sales | 87 | 3 | - | - | (90) | (0) |
| **Total Revenue** | 29,515 | 14,946 | - | - | (90) | 44,371 |
| **Segment profit (refer below)** | 4,153 | 2,152 | 836 | (2,091) | - | 5,049 |
| Other Segment Information | | | | | | |
| Depreciation & Amortisation* | 747 | 48 | - | 76 | - | 871 |
| Share of joint venture profit | - | - | 602 | - | - | 602 |
| Share of joint venture interest, depreciation, tax | - | - | 233 | - | - | 233 |
| Disbursement costs | 1,521 | 10,472 | - | - | (90) | 11,903 |
| Personnel costs | 11,652 | 1,758 | - | 1,378 | - | 14,788 |
| System maintenance | 147 | 87 | - | 355 | - | 589 |
| Interest received* | - | - | - | 69 | - | 69 |
| Interest paid* | - | - | - | 540 | - | 540 |
| Property, plant, equipment and computer software additions* | 2,073 | 45 | - | 23 | - | 2,142 |

| Six months ended 31 Dec 2013 | Domestic ($'000) | International ($'000) | Joint Venture ($'000) | Head Office ($'000) | Inter-Segment ($'000) | Group ($'000) |
|---|---|---|---|---|---|---|
| Operating Revenue | | | | | | |
| Sales to customers outside the Group | 26,975 | 15,683 | - | - | - | 42,658 |
| Inter-segment sales | 81 | 6 | - | - | (87) | 0 |
| **Total Revenue** | 27,056 | 15,689 | - | - | (87) | 42,658 |
| **Segment profit (refer below)** | 4,695 | 2,306 | 518 | (2,038) | - | 5,481 |
| Other Segment Information | | | | | | |
| Depreciation & amortisation* | 554 | 64 | - | 32 | - | 650 |
| Share of joint venture profit | - | - | 374 | - | - | 374 |
| Share of joint venture interest, depreciation, tax | - | - | 144 | - | - | 144 |
| Disbursement costs | 1,027 | 11,068 | - | - | (87) | 12,008 |
| Personnel costs | 10,651 | 1,727 | - | 1,245 | - | 13,623 |
| System maintenance | 138 | 78 | - | 328 | - | 544 |
| Interest received* | - | - | - | 82 | - | 82 |
| Interest paid* | - | - | - | 463 | - | 463 |
| Property, plant, equipment and computer software additions* | 269 | 25 | - | 118 | - | 412 |

* Excluded from segment profit

| | Domestic | International | Joint Venture | Head Office | Inter-Segment | Group |
|---|---|---|---|---|---|---|
| Statement of financial position as at 31 December 2014 | | | | | | |
| Segment Assets | 37,426 | 8,490 | 2,078 | 3,306 | - | 51,299 |
| Segment Liabilities | 5,574 | 1,936 | 40 | 22,538 | - | 30,088 |
| Statement of financial position as at 30 June 2014 | | | | | | |
| Segment Assets | 34,375 | 8,353 | 1,953 | 8,500 | - | 53,181 |
| Segment Liabilities | 6,297 | 2,075 | 35 | 20,983 | - | 29,390 |
| Statement of financial position as at 31 December 2013 | | | | | | |
| Segment assets | 32,486 | 9,634 | 1,753 | 8,572 | - | 52,445 |
| Segment liabilities | 5,154 | 2,472 | 32 | 22,422 | - | 30,080 |

*Reconciliation between segment profit and the Statement of Comprehensive Income*

| | 2014 ($'000) | 2013 ($'000) |
|---|---|---|
| Segment profit | 5,049 | 5,481 |
| Net gains / (losses) arising from derivative instruments | (162) | 176 |
| Gross up 50% joint venture interest, tax, depreciation** | (233) | (144) |
| Loss / (gain) on disposal property/plant/equipment | (29) | 40 |
| Depreciation and amortisation | (871) | (650) |
| Non-recurring costs - other costs | (45) | (19) |
| Other operating costs | (46) | (56) |
| Operating profit before financing costs | 3,663 | 4,828 |

The Group uses segment profit to evaluate the operating performance of the business over time. In evaluating segment profit management makes adjustments for the impact of non-recurring costs, assets disposals and derivative gains losses, financing, depreciation / amortisation and tax position. Adjustment is also made to back out the Group's 50% share of the joint venture's interest income, depreciation / amortisation and tax expense.

All segments assets are geographically based in New Zealand, and all services provided are centralised in New Zealand.

Transactions between segments are entered into on a fully commercial basis. Segment assets and liabilities are disclosed net of inter-company balances.
The Group's top 5 customers contribute 30% (2013: 33%) of Group revenue, the total revenue of these customers is $14m (2013: $14m), this is included in the Domestic and International segments above.

** Gross up 50% joint venture interest, tax, depreciation derived as follows:

| | 2014 ($'000) | 2013 ($'000) |
|---|---|---|
| Interest income | (13) | (12) |
| Depreciation and amortisation | 10 | 11 |
| Tax expense | 469 | 289 |
| | 466 | 288 |
| Group share 50% | 233 | 144 |

15 **Redeemable preference shares**

Fully paid redeemable preference shares carry no voting rights and no right to dividends and, upon winding up, rank ahead of ordinary shares with issue price repayment and do not participate in a share of the Company's assets. The Company has the option to redeem the preference shares held and this option was taken on the 6th October 2014

16 **Financial Instruments**

**Financial risk management objectives**

The Directors have identified interest rate risk, credit risk and liquidity risk as the key risks faced by the Group.

The Group seeks to minimise the effects of interest rate risk by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Director. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**(i) Fair value of financial instruments**

All financial assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or at fair value are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics or the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in NZ IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described below:

> level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date;

> level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly;

> level 3 inputs are unobservable inputs for the asset or liability.

For recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

**(ii) Financial instruments at fair value**

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped into levels one to three depending on the degree to which fair value is observable.

| Six months ended 31 Dec 2014 | LEVEL 1 ($'000) | LEVEL 2 ($'000) | LEVEL 3 ($'000) | TOTAL ($'000) |
|---|---|---|---|---|
| Derivatives classified as fair value through profit or loss | - | (108) | - | (108) |
| Total assets | - | (108) | - | (108) |
| Twelve months ended 30 June 2014 | | | | |
| Derivatives classified as fair value through profit or loss | - | 34 | - | 34 |
| Total liabilities | - | 34 | - | 34 |

**(iii) Categories of financial assets and financial liabilities**

Group

| As at 31 December 2014 | Loans and Receivables ($'000) | Derivatives classified as fair value through profit or loss ($'000) | Financial liabilities at amortised cost ($'000) | Total ($'000) |
|---|---|---|---|---|
| *Assets* | | | | |
| Cash and cash equivalents | 2,634 | - | - | 2,634 |
| Trade receivables | 11,456 | - | - | 11,456 |
| Related party receivables | 520 | - | - | 520 |
| *Total financial assets* | 14,610 | - | - | 14,610 |
| *Liabilities* | | | | |
| Accounts payable & accrued expenses | - | - | 5,443 | 5,443 |
| Related party payable | - | - | 40 | 40 |
| Interest-bearing loans | - | - | 19,300 | 19,300 |
| Unsecured loans | - | - | 2,769 | 2,769 |
| Derivative financial instruments | - | 108 | - | 108 |
| *Total financial liabilities* | - | 108 | 27,552 | 27,660 |

16 **Financial Instruments continued**

Group

| As at 30 June 2014 | Loans and Receivables ($'000) | Derivatives classified as fair value through profit or loss ($'000) | Financial liabilities at amortised cost ($'000) | Total ($'000) |
|---|---|---|---|---|
| *Assets* | | | | |
| Cash and cash equivalents | 8,090 | - | - | 8,090 |
| Trade receivables | 10,734 | - | - | 10,734 |
| Related party receivables | 492 | - | - | 492 |
| Derivative financial instruments | - | 34 | - | 34 |
| *Total financial assets* | 19,316 | 34 | - | 19,350 |
| *Liabilities* | | | | |
| Accounts payable & accrued expenses | - | - | 4,780 | 4,780 |
| Related party payable | - | - | 35 | 35 |
| Interest-bearing loans | - | - | 19,292 | 19,292 |
| Unsecured loans | - | - | 2,969 | 2,969 |
| *Total financial liabilities* | - | - | 27,076 | 27,076 |

# APPENDIX 4:  PRICING ADDENDUM

# INITIAL PUBLIC OFFERING

## OFFER PRICE SET AT $1.20 PER SHARE

FLIWAY
DELIVERING TRANSPORT SOLUTIONS

## KEY OFFER STATISTICS

The following table highlights key Offer statistics based on the Offer Price and based on Fliway undertaking a Share split so that it has 45.4 million Shares on issue upon completion of the Offer.

For further information on the Offer please refer to the Prospectus and Investment Statement at www.fliwayoffer.co.nz. To apply for Shares under the Offer you must fill out a Broker Firm Application Form accompanying the Investment Statement.

Capitalised terms used in this announcement have the meanings given to them in the Investment Statement and / or Prospectus.

| Offer Price | $1.20 |
|---|---|
| New Shares being offered | 7.5 million |
| Number of Existing Shares being offered | 13.3 million |
| Number of Offer Shares | 20.8 million |
| Offer size | $25.0 million |
| Shareholding of the Selling Shareholders upon completion of the Offer | 54.2%[1] |
| Indicative market capitalisation | $54.5 million[2] |
| Net debt on completion of the Offer | $12.5 million[3] |
| Indicative enterprise value | $67.0 million[4] |

## KEY INVESTMENT METRICS

The following table highlights key Offer statistics and should be read in conjunction with Section 10 *Details of the Offer* of the Prospectus. These metrics are provided to help you assess the value of Fliway. The calculations are presented based on the Offer Price and are explained further in the table set out at the end of Section 11 *Glossary* of the Prospectus.

| | FY15F | 12M Dec 15F |
|---|---|---|
| Enterprise value / EBITDA | 7.7x | 7.0x |
| Enterprise value / EBIT | 10.1x | 9.4x |
| Market capitalisation / NPAT | 13.9x | 12.0x |
| Cash dividend yield | 5.0% | 5.8% |
| Gross dividend yield | 7.0% | 8.1% |

## KEY DATES

This timetable is indicative only and the dates may change. Fliway, in conjunction with the Arranger and Lead Manager, reserves the right to vary or extend these dates. Fliway may also withdraw the Offer at any time before the Allotment Date or accept late Applications (either generally or in individual cases).

| | |
|---|---|
| Opening Date | 18 March 2015 |
| Closing Date | 1 April 2015 |
| Allotment and dispatch of holding statements | 8 April 2015 |
| Expected commencement of trading on the NZX Main Board[5] | 9 April 2015 |
| Expected payment of first dividend | September 2015 |

1. Based on the number of New Shares being offered by Fliway and the number of Existing Shares being sold by the Selling Shareholders under the Offer.
2. Calculated as total number of Shares upon completion of the Offer multiplied by the Offer Price of $1.20.
3. Net debt on completion of the Offer is equal to forecast total debt upon completion of the Offer of $12.5 million.
4. Calculated as indicative market capitalisation plus net debt on completion of the Offer.
5. Application has been made to NZX Limited (**NZX**) for permission to list Fliway and to quote the Shares on the NZX Main Board and all of the requirements of NZX relating to that application that can be complied with on or before the date of this announcement have been duly complied with. However, NZX accepts no responsibility for any statement in this announcement. The NZX Main Board is a licensed market operated by NZX, which is a licensed market operator regulated under the Financial Markets Conduct Act 2013.

## DIRECTORY

**Issuer**

**Fliway Group Limited**
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Mangere
Manukau City
New Zealand

Phone: +64 9 255 4600

**Arranger and Lead Manager**

**Forsyth Barr Limited**
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Phone: +64 9 368 0068

**Directors of the Issuer**

The Directors can be contacted at Fliway Group Limited's registered office (as set out above).

**Legal Advisers to the Issuer**

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Phone: +64 9 916 8800

**Auditor and Investigating Accountants**

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**Share Registrar**

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**Selling Shareholders**

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