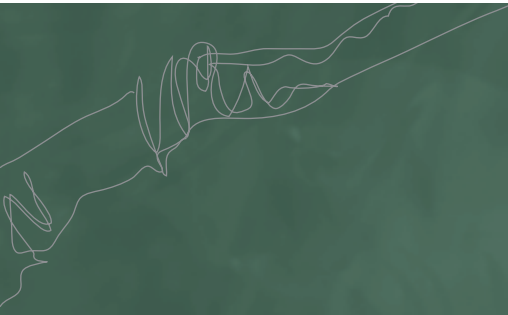




Interim Report  
For the half year ended 30 June 2019

**Pohutukawa**  
PRIVATE EQUITY II LIMITED







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## Report to Shareholders

September 2019

Dear Shareholder

I am pleased to present Pohutukawa II's 2019 Interim Report. The report includes the financial statements for the interim period to 30 June 2019 with commentary on the performance of our three remaining portfolio companies.

### *Pohutukawa II Fund*

The Pohutukawa II offer raised \$82.5 million of committed capital in February 2009. Pohutukawa II co-invests with Direct Capital IV which together totals \$325 million. Pohutukawa II has called \$51.1 million to the period ended 30 June 2019. On 18 December 2014 the Board decided to cap the maximum amount of capital to be called at 80 cents per share (cps), i.e. a reduction of 20 cps in total committed capital. Shareholders have contributed capital of 62 cps and it is unlikely that any further calls will be required.

### Portfolio Performance Summary

It was business as usual for our portfolio companies during the interim financial period.

Pohutukawa II had three remaining investments at the end of the interim period. The portfolio companies have performed to expectations during this period.

- *Bayley Corporation* – Trading was slightly softer than the record first half of last year, which is consistent with the New Zealand property market generally. The company was NZ's most awarded agency at the recent REINZ awards, reflecting Bayleys' excellent position across the market;
- *PF Olsen* – year to date performance is in line with expectations. There is strong afforestation activity;
- *George H Investments* - remaining assets to be sold include a remaining site at Silverstream Industrial Park in Mosgiel.

Comments on the individual portfolio company performances are provided from page 4 onwards.

### Distributions to Shareholders

The last distribution was 13 cps gross made in October 2018. Pohutukawa II has to date made total gross distributions of \$1.01, or \$83 million, which compares to contributed capital of \$51.1m (\$0.62).

A summary of gross returns made to Shareholders for the period ended 30 June 2019 is shown in *Table 1*:

*Table 1 Summary of Investor Returns*

Investor Returns to 30 June 2019	
Total capital paid	\$0.62
<b>Gross Returns to Investors</b>	
September 2011	0.02
September 2012	0.04
May 2013	0.03
November 2013	0.04
May 2014	0.04
August 2014	0.16
April 2015	0.02
November 2015	0.35
April 2016	0.10
November 2016	0.04
June 2017	0.02
December 2017	0.02
October 2018	0.13
<b>Gross Return</b>	<b>1.01</b>
Assessed Net Asset Value 30 June 2019*	0.17
<b>Estimated Total Gross Return</b>	<b>\$1.18</b>

\*Includes provision of earnout

## Report to Shareholders

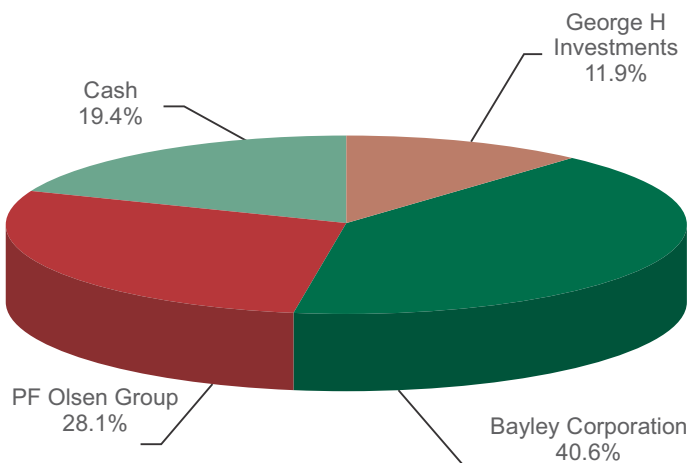
### Portfolio Company Investments

The investment cost of the current portfolio at 30 June 2019 is \$7.1 million (adjusted for capital returns/loan repayments).

The Investment Manager does not anticipate making any further investments.

Investments including cash at 30 June 2019 are shown in *Chart 1*.

*Chart 1 – Pohutukawa II Investment Mix 30 June 2019 (at cost)*



### Portfolio Company Investment Revaluations

The Manager revalues the portfolio company investments each quarter using the International Private Equity & Venture Capital valuation guidelines. Revaluations are completed for all portfolio companies on the last day of the quarter.

The investment portfolio, excluding cash was valued at \$15.6 million at 30 June 2019 compared to the investment cost of \$7.1 million.

### Interim Financial Statements 30 June 2019

Our interim financial statements for the period ended 30 June 2019 and KPMG Audit Review are included in this report.

For the period ended 30 June 2019 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At the interim balance date, shareholder funds were \$13.8 million, equivalent to a net asset backing of 16.7 cps (after allowing for earn-out).

The main assets comprised:

- Investments & loans \$15.5 million
- Cash \$1.7 million

Income was derived from interest of \$18,023 on our short-term deposits; dividend income of \$736,468 was received from portfolio companies. The investment portfolio was re-valued under the fair value method at 30 June 2019 and there was a positive movement in the fair value of investments of \$968,955.

Administrative expenses were \$374,545 (June 2018: \$489,402). There was a net profit of \$1,086,694 for the period (June 2018 loss: \$38,326).

An earn-out provision of \$3.5 million has been provided for in the interim accounts (June 2018: \$5.5 million). The earn-out is calculated at 20% of the net returns of Pohutukawa II provided that shareholders have received back in distributions their original investment plus a pre-tax compound annual return of 8%.

### Secondary Market

Craigs Investment Partners facilitates a secondary market for your Pohutukawa II shares, and details are available on the Pohutukawa website [www.pohutukawafund.co.nz](http://www.pohutukawafund.co.nz).

As at 30 June 2019 the last sale price for Pohutukawa II shares was 15 cents while the net asset backing was 16.7 cps after allowing for earn-out.

Thank you for your ongoing support of Pohutukawa Private Equity II.

If you have any queries regarding your investment in Pohutukawa II, please call your Investment Adviser or Peter Lalor at Pohutukawa Management on 07 927 7927.

Yours sincerely

**POHUTUKAWA PRIVATE EQUITY II LIMITED**

John McDonald  
Chairman





## Manager’s Report on Portfolio Companies

The Manager is pleased to report on the portfolio performance for the interim period to 30 June 2019.

The interim period has been generally positive for the majority of the companies in the portfolio. The performance and prospects of each portfolio company is provided in the company summaries that follow.

### BAYLEY CORPORATION

[www.bayleys.co.nz](http://www.bayleys.co.nz)



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
June 2010	Real Estate	Expansion /succession	\$3,575	7.4*

\* Total shareholding managed by Direct Capital 31%

#### Background

Bayleys is a property services company operating nationally from 90 corporate owned and franchise offices, and has a leading position in marketing commercial, industrial, rural, and high-value residential property sales. In addition to real estate agency, Bayleys offers facilities and asset management, valuation, leasing, research and advisory services.

#### Performance

Bayleys’ trading result for the six months ended 30 June 2019 was slightly softer than its record first half of the calendar year in 2018, but ahead of 2017. This result is consistent with the wider New Zealand property market, where lower transaction volumes, interest rates and property sector confidence are continuing themes, across all sectors.

Completed sale value was down slightly in Bayleys’ Residential and Rural and Lifestyle businesses for the half, driven by a combination of lower volumes in Residential and lower average values in Rural and Lifestyle (but with market share gains).

In the Commercial and Industrial business, completed sale value was up compared to the first half of last year, driven by increased volumes and higher average values in this division.

The Asset Management and Valuation business achieved strong growth relative to last year, boosted by the Knight Frank acquisition, property management contract wins, and the commencement of valuation services from Hamilton (alongside the existing Auckland, Wellington and Christchurch offices).

Bayleys was New Zealand’s most awarded agency at the recent Real Estate Institute of New Zealand Awards For Excellence – winning the top salesperson categories in each of the three individual categories, as well as six other branch and regional office awards.

Bayleys have also recently partnered with top Dunedin residential real estate company Metro, to form BayleysMetro Real Estate. BayleysMetro have three offices across Dunedin.

#### Outlook

The outlook for the market generally is mixed. Activity in the commercial and industrial segment is softening (due in part to a lower number of high value Auckland office building sales compared to last year). The rural market as a whole is generally steady (but local buyers are becoming more dominant). Low interest rates and reduced LVR requirements are providing support for the slowing residential segment.

Bayleys expects this mixed market to provide further expansion opportunities, which the company’s strong balance sheet means it can selectively pursue.





## Manager's Report on Portfolio Companies

### GEORGE H INVESTMENTS



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
July 2011	Agri- Services	Buyout	\$1,043	9.3*

\* Total shareholding managed by Direct Capital 81.6%

#### Background

GHI's principal assets are:

- Two sites at Silverstream Industrial Park in Mosgiel

The assets of GHI will be managed to maximise value, with the proceeds expected to be returned to shareholders over time.

#### Performance

##### *Silverstream Industrial Park*

The remaining two sites continue to be marketed, with one site under negotiation.

#### Outlook

The company will continue to pursue sale opportunities. Future distributions will be by way of a liquidation distribution.

## Manager's Report on Portfolio Companies

### PF OLSEN GROUP

[www.pfolsen.co.nz](http://www.pfolsen.co.nz)



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
September 2011	Agri- Services	Buyout	\$2,475	9.5*

\* Total shareholding managed by Direct Capital 40%

#### Background

PF Olsen is Australasia's largest independent forestry and rural asset manager.

#### Performance

Performance during the first half of the financial year was slightly uneven, however finished in line with budget and prior year, driven by strong afforestation and harvesting activities. This enabled PF Olsen to distribute a number of fully imputed dividends during the period.

Within New Zealand new and replanting activities on the back of higher carbon prices helped underpin strong forestry management activities.

Harvesting activities remained stable, although were slightly impacted by events such as the Nelson forest fires and contractor shortages in parts of the North Island.

PF Olsen's Australian activities continue to remain stable and there are a number of new work opportunities in the coming year.

#### Outlook

Export log prices dropped substantially in the second half of June following a temporary oversupply of logs and lumber into China, along with negative market sentiment caused by the China - US trade war. Subsequent to the

reporting period, prices have started to retrace higher as the market recovers, however remain well below recent levels. This is expected to have a meaningful impact on PF Olsen's performance over the second half of the financial year.

While lower forestry prices may present some short-term headwinds across the industry, current price levels remain above long-term averages and profitable for most harvesting activities. In addition, Government initiatives such as the 1 Billion Trees programme, and higher carbon prices continue to remain supportive of increased afforestation activities across New Zealand.





## Financial Information

### Consolidated interim statement of comprehensive income

For the six months ended 30 June 2019

	<i>Note</i>	Unaudited 6 months Jun 2019	Unaudited 6 months Jun 2018	Audited 12 months Dec 2018
Interest income		18,023	19,290	51,867
Dividends received		736,468	490,869	1,020,955
Option income				394,002
Change in fair value of investments	4	968,955	(72,834)	(1,388,819)
Gain on sale of investments		9,468	-	1,934,352
Movement in earnout provision	6	(271,675)	13,751	(191,092)
Administrative expenses		(374,545)	(489,402)	(946,528)
<b>Operating profit/(loss) before tax</b>		<b>1,086,694</b>	<b>(38,326)</b>	<b>874,737</b>
Tax expense		-	-	-
<b>Profit/(loss) after tax</b>		<b>1,086,694</b>	<b>(38,326)</b>	<b>874,737</b>
<b>Attributable to:</b>				
Equity holders of the parent		(474,540)	(73,278)	(362,423)
Equity holders of the investment companies	1c	1,561,234	34,952	1,237,160
<b>Profit/(loss) for the period</b>		<b>1,086,694</b>	<b>(38,326)</b>	<b>874,737</b>
Other comprehensive income for the period		-	-	-
<b>Total comprehensive income/(loss) for the period attributable to the equity holders of stapled securities</b>		<b>1,086,694</b>	<b>(38,326)</b>	<b>874,737</b>



## Financial Information

### Consolidated interim statement of changes in equity

For the six months ended 30 June 2019

	Attributable to equity holders of the parent			Attributable to equity holders of the investment companies	Total equity	
	Note	Share capital	Retained earnings			Total
<b>Unaudited</b>						
<b>Balance at 1 January 2019</b>		25,913,910	(15,408,919)	10,504,991	2,249,450	12,754,441
Total comprehensive income		-	(474,540)	(474,540)	1,561,234	1,086,694
<b>Balance at 30 June 2019</b>		25,913,910	(15,883,459)	10,030,451	3,810,684	13,841,135
<b>Unaudited</b>						
<b>Balance at 1 January 2018</b>		31,610,701	(14,451,315)	17,159,386	5,120,593	22,279,979
Total comprehensive income		-	(73,278)	(73,278)	34,952	(38,326)
<b>Balance at 30 June 2018</b>		31,610,701	(14,524,593)	17,086,108	5,155,545	22,241,653
<b>Audited</b>						
<b>Balance at 1 January 2018</b>		31,610,701	(14,451,315)	17,159,386	5,120,593	22,279,979
Total comprehensive income		-	(362,423)	(362,423)	1,237,160	874,737
Distributions to equity holders		-	(595,181)	(595,181)	(4,108,303)	(4,703,484)
Redemption of share capital		(5,696,791)	-	(5,696,791)	-	(5,696,791)
<b>Balance at 31 December 2018</b>		25,913,910	(15,408,919)	10,504,991	2,249,450	12,754,441



## Financial Information

### Consolidated interim statement of financial position

As at 30 June 2019

	Note	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
<b>Assets</b>				
Loans and receivables	3	-	200,182	-
Investments – equity securities	4	15,551,792	25,705,102	14,582,837
<b>Total non-current assets</b>		<b>15,551,792</b>	<b>25,905,284</b>	<b>14,582,837</b>
Trade and other receivables	2	62,635	23,130	236,890
Cash and cash equivalents	5	1,708,651	1,899,316	1,182,707
<b>Total current assets</b>		<b>1,771,286</b>	<b>1,922,446</b>	<b>1,419,597</b>
<b>Total assets</b>		<b>17,323,078</b>	<b>27,827,730</b>	<b>16,002,434</b>
<b>Equity</b>				
Issued capital		25,913,910	31,610,701	25,913,910
Retained losses		(15,883,459)	(14,524,593)	(15,408,919)
<b>Total equity attributable to equity holders of the parent</b>		<b>10,030,451</b>	<b>17,086,108</b>	<b>10,504,991</b>
<b>Equity attributable to equity holders of the investment companies</b>	1c	<b>3,810,684</b>	<b>5,155,545</b>	<b>2,249,450</b>
<b>Total equity attributable to equity holders of stapled securities</b>		<b>13,841,135</b>	<b>22,241,653</b>	<b>12,754,441</b>
<b>Liabilities</b>				
Trade and other payables		21,656	29,831	59,381
<b>Total current liabilities</b>		<b>21,656</b>	<b>29,831</b>	<b>59,381</b>
Earnout provision	6	3,460,287	5,556,246	3,188,612
<b>Total non-current liabilities</b>		<b>3,460,287</b>	<b>5,556,246</b>	<b>3,188,612</b>
<b>Total liabilities</b>		<b>3,481,943</b>	<b>5,586,077</b>	<b>3,247,993</b>
<b>Total equity and liabilities</b>		<b>17,323,078</b>	<b>27,827,730</b>	<b>16,002,434</b>

For and on behalf of the Board

Director

17 September 2019

Date

Director

17 September 2019

Date

## Financial Information

### Consolidated interim statement of cash flows

For the six months ended 30 June 2019

	<i>Note</i>	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
<b>Cash flows from operating activities</b>				
Interest received		18,339	19,290	46,619
Dividends received		736,468	490,869	1,020,955
Option income		-	-	394,002
Cash paid to suppliers		(417,065)	(535,543)	(957,151)
Distribution of earnout	6	-	-	(2,572,477)
<b>Net cash from operating activities</b>		<b>337,742</b>	<b>(25,384)</b>	<b>(2,068,052)</b>
<b>Cash flows from investing activities</b>				
Realisations from investments		188,202	-	11,526,151
Repayment of loans to portfolio companies		-	146,616	346,799
<b>Net cash from investing activities</b>		<b>188,202</b>	<b>146,616</b>	<b>11,872,950</b>
<b>Cash flows from financing activities</b>				
Redemption of preference shares	7	-	-	(5,696,791)
Distributions to equity holders	7	-	-	(4,703,484)
<b>Net cash from financing activities</b>		<b>-</b>	<b>-</b>	<b>(10,400,275)</b>
Net movement in cash and cash equivalents		525,944	121,232	(595,377)
Cash and cash equivalents at beginning of period		1,182,707	1,778,084	1,778,084
<b>Cash and cash equivalents at end of period</b>	5	<b>1,708,651</b>	<b>1,899,316</b>	<b>1,182,707</b>

Reconciliation of profit for the period with net cash from operating activities

	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
Profit/(loss) for the period	1,086,694	(38,326)	874,737
<i>Adjustments for:</i>			
Changes in fair value of investments – equity securities	(968,955)	72,834	1,388,819
Gain on sale of investments	(9,468)	-	(1,934,352)
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	(4,479)	(14,107)	(13,387)
Change in earnout provision	271,675	(13,751)	(2,381,385)
Change in trade and other payables	(37,725)	(32,034)	(2,484)
<b>Net cash from operating activities</b>	<b>337,742</b>	<b>(25,384)</b>	<b>(2,068,052)</b>

## Financial Information



### Notes to the consolidated interim financial statements

#### 1. Significant accounting policies

Pohutukawa Private Equity II Limited (the “Company”) is a company incorporated and domiciled in New Zealand. The consolidated interim financial statements of the Company for the six months ended 30 June 2019 comprise the Company and 12 Investment Companies (30 June 2018: 12) (together referred to as the “Group”) and outline significant changes to information reported in the financial statements for the year ended 31 December 2018.

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018.

The interim financial statements were approved by the Directors on 17 September 2019.

#### *(a) Statement of compliance*

The interim financial statements have been prepared in accordance with New Zealand Equivalents to International Accounting Standard (NZ IAS) NZ IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2018.

#### *(b) Basis of preparation*

The Parent Company is a FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. The financial statements are presented in New Zealand dollars, which is the Group’s functional currency. They are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### *(c) Basis of consolidation*

For every ordinary share held in Pohutukawa Private Equity II Limited, investors also hold 100 preference shares in Pohutukawa Private Equity II Limited as well as one preference share in each of the 12 (30 June 2018:12) Investment Companies. All of these shares are stapled securities. This stapling arrangement creates a business combination by contract alone without any individual entity obtaining an ownership interest. The Group has designated Pohutukawa Private Equity II Limited as the acquirer and the parent entity for the purpose of preparing consolidated financial statements. The Investment Companies combining under the stapling arrangement are designated as the Investment Companies who invest in Portfolio Companies.

Investments in equity securities, which would normally be classified as investments in associates, are carried at fair value and are not equity accounted (see accounting policy 1d). This is due to the fact that the Group are private equity investors.





## Financial Information

### Notes to the consolidated interim financial statements

#### 1. Significant accounting policies (continued)

##### (c) Basis of consolidation (continued)

###### Special purpose entities

The Group has established a number of special purpose entities for investment purposes. Special purpose entities are consolidated when the Group concludes that it controls the special purpose entity.

###### Equity attributable to equity holders of the investment companies

Equity attributable to equity holders of the investment companies refers to the equity of the Investment Companies, as this is owned directly by shareholders of the parent and the Manager, and not by the parent company itself. These are considered non-controlling interests and are attributable to the parent company shareholders as a result of their direct investment in the preference shares of the Investment Companies, and to the Manager as a result of its ownership of the ordinary shares in the Investment Companies.

##### (d) Investments in equity securities

The Group's investments in equity securities are classified at fair value through profit or loss financial assets and presented as non-current assets in the statement of financial position. They are stated at fair value, with any resultant change in fair value recognised in profit or loss.

Investments in unlisted equity securities are valued in accordance with the International Private Equity and Venture Capital (IPEV) valuation guidelines.

##### (e) Loans and borrowings

Loans and borrowings are recognised initially at fair value net of 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 or loss over the period of the borrowings on an effective interest rate basis.

##### (f) New standards and pronouncements relevant to the Group

There are a number of new standards and interpretations which are not yet effective and management consider they will have no impact on the Group.

#### 2. Trade and other receivables

	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
GST receivable	633	2,231	2
Prepayments	21,315	20,899	6,966
Other receivables	40,687	-	229,922
	62,635	23,130	236,890

## Financial Information

### Notes to the consolidated interim financial statements

#### 3. Loans to portfolio companies

Hiway Group Limited

	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
	-	200,182	-
	-	200,182	-

Hiway Group Limited (investment held by Pohutukawa Zeta Limited) repaid its loan in full during the year ended 31 December 2018.

#### 4. Investments

##### Non-current investments

The Group has investments in unlisted equity securities. Group policy is to carry these investments at fair value with subsequent movements in fair value recognised in profit or loss. As there is no quoted market price for these securities in most instances, valuation techniques are utilised to determine fair value.

Shares in George H Investments Limited have been valued based on the net assets of the company. The valuation techniques utilised for all other investments include the use of market based earnings multiples and an adjustment factor of up to 20% for privately owned investments.

The following details the equity securities held at 30 June 2019 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting Interest	Unaudited Jun 2019 Cost of Acquisition	Unaudited Jun 2018 Cost of Acquisition	Audited Dec 2018 Cost of Acquisition
Bayley Corporation Limited	Real estate services	Jun 2010	7.4%	3,574,666	3,574,666	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	3.3%	-	3,336,366	-
George H Investments Limited	Investment assets	Jul 2011	9.3%	1,042,533	1,042,533	1,042,533
PF Olsen Group Limited	Forestry management	Sep 2011	9.5%	2,475,636	2,475,636	2,475,636
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	14.3%	-	3,437,897	-
				7,092,835	13,867,098	7,092,835

## Financial Information

### Notes to the consolidated interim financial statements

#### 4. Investments (continued)

##### (a) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2019	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	15,551,802	15,551,802

30 June 2018	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	25,705,102	25,705,102

31 December 2018	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	14,582,837	14,582,837

The following table shows reconciliation from the opening balance to the closing balance for fair value measurements in Level 3 of the fair value hierarchy:

Investments	Jun 2019	Dec 2018
Opening balance	14,582,837	25,777,936
Total gains/(losses):		
Net change in fair value	968,955	545,533
Capital returns	-	(11,740,632)
Closing balance	15,551,792	14,582,837

Total gains/(losses) included in the above table are presented in the statement of comprehensive income as follows:

Investments	Jun 2019	Dec 2018
Total gains/(losses) included in profit or loss for the period	968,955	545,533
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	968,955	(1,388,819)

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Refer Note 4(c) for sensitivity analysis with regards to the earnings multiple or adjustment factor.

## Financial Information

### Notes to the consolidated interim financial statements

#### 4. Investments (continued)

##### (b) Significant unobservable inputs used in measuring fair value

Significant unobservable inputs are developed as follows:

##### *EBITDA multiples:*

Represent amounts that market participants would use when pricing the investments. EBITDA multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the company by its EBITDA. Other factors that management considers are items such as the lack of marketability and other differences between the comparable peer group and specific company.

##### *Discount for lack of marketability:*

Represents the discount applied to the comparable market multiples to reflect the illiquidity of the portfolio companies relative to the comparable peer group. Management determines the discount for lack of marketability based on its judgment after considering market liquidity conditions and company-specific factors such as the developmental stage of the portfolio company, if any.

##### (c) Sensitivity Analysis for Unlisted Securities

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by \$391,107. A movement in the discount factor of 5% changes the value of the investments by \$868,364. A movement in the maintainable earnings of 5% changes the value of the investments by \$694,691.

#### 5. Cash and cash equivalents

	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
Call deposits	908,651	1,899,316	382,707
Short-term deposits	800,000	-	800,000
Cash and cash equivalents	1,708,651	1,899,316	1,182,707

The majority of call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a 100% subsidiary of Craigs Investment Partners Limited (refer to note 8). The interest rate at 30 June 2019 is 2.10% (30 June 2018: 2.25%).

When applicable, short-term deposits are held with ANZ Bank New Zealand Limited for periods of up to 90 days and have an interest rate of 3.0%. There were deposits of \$800,000 held at 30 June 2019, (30 June 2018: \$Nil).



## Financial Information

### Notes to the consolidated interim financial statements

#### 6. Earnout Provision

	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
Opening provision	3,188,612	5,569,997	5,569,997
Change in provision due to change in Net Assets	271,675	(13,751)	191,092
Distribution of earnout during the period	-	-	(2,572,477)
Closing Earnout Provision	3,460,287	5,556,246	3,188,612

In accordance with clause 11 of the Prospectus the earnout holder is entitled to an earnout distribution calculated at 20% of net returns to Pohutukawa Private Equity II Limited provided investors have received back their original investment together with further distributions producing a pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 30 June 2019 the estimated earnout provision is calculated at \$3,460,287, which is based on unrealised portfolio company fair value valuations of \$15,551,792 being fully recovered. Movements in the provision are recognised in profit or loss.

#### 7. Share Capital

No distributions were declared during the period by companies within the Group (30 June 2018: \$Nil). All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to \$0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

#### 8. Related parties

##### Identity of related parties

The Company has a related party relationship with its Investment Companies, due to the ownership structure. Loans are made between the Company and the Investment Companies which eliminate on consolidation.

Craigs Investment Partners Limited and Direct Capital IV Management Limited own 50% each of Pohutukawa II Management Limited, the Manager of Pohutukawa Private Equity II Limited. Craigs Investment Partners Limited and Direct Capital IV Investment Partners LP are partners in Pohutukawa II Investment Holdings LP which is the holder of the ordinary shares in the Investment Companies. Certain directors of the Company are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital IV Management Limited and Craigs Investment Partners Limited.

Direct Capital IV Management Limited is responsible for preparing valuations of investments.





## Financial Information

### Notes to the consolidated interim financial statements

#### 8. Related parties (continued)

##### Transactions with related parties

During the period, Pohutukawa Private Equity II Limited entered into the following transactions with related parties:

- Management fees charged by Pohutukawa II Management Limited for the reporting period totalled \$301,128 (30 June 2018: \$403,352). At the end of the reporting period no management fees or interest were owing to Pohutukawa II Management Limited (30 June 2018: \$Nil).
- Craigs Investment Partners Limited paid certain expenses and collects certain receipts of Pohutukawa Private Equity II Limited. As at 30 June 2019, no amount remained owing to Craigs Investment Partners Limited (30 June 2018: \$Nil owing to Craigs Investment Partners Limited).
- Call deposits have been invested in ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited. At 30 June 2019 the balance held was \$1,708,651 (30 June 2018: \$1,898,705).
- Direct Capital IV Management Limited paid certain expenses on behalf of Pohutukawa Private Equity II Limited. As at 30 June 2019, no expenses were owing to Direct Capital IV Management Limited (30 June 2018: \$Nil).
- Pohutukawa II Investment Holdings LP received no earnout distribution during the period 30 June 2019 (30 June 2018: \$Nil).

The terms and conditions of the transactions with key management personnel and their related parties are in accordance with the terms of the management agreement.

##### Transactions with key management personnel

	Unaudited Jun 2019	Unaudited Jun 2018	Audited Dec 2018
Directors fees (total remuneration)	42,500	42,500	85,000

The balance owing to directors at 30 June 2019 is \$21,250 (30 June 2018: \$21,250).

#### 9. Subsequent events

There were no material subsequent events for the Group.



## Auditor's Review Report



# Independent Review Report

To the Shareholders of Pohutukawa Private Equity II Limited  
**Report on the interim consolidated financial statements**

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 7 to 17 do not:

- i. Present, in all material respects the Group's financial position as at 30 June 2019 and its financial performance and cash flows for the 6 month period ended on that date in compliance with NZ IAS 34 Interim Financial

Reporting. We have completed a review of the accompanying interim consolidated financial statements which comprise:

- The consolidated interim statement of financial position as at 30 June 2019;
- The consolidated interim statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.



### Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Pohutukawa Private Equity II Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Other than in our capacity as auditor, we have no relationship with, or interests in, the Group.



### Use of this Independent Review Report

This report is made solely to the Shareholders as a body. Our review work has been undertaken so that we might state to the Shareholders those matters we are required to state to them in the Independent Review 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 Shareholders as a body for our review work, this report, or any of the opinions we have formed.

## Auditor's Review Report

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### Responsibilities of the Directors for the interim consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

- The preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- Implementing necessary internal control to enable the preparation of interim consolidated financial statements that is free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



### Auditor's Responsibilities for the review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

**KPMG**

Tauranga  
17 September 2019



## Directory

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### BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald  
Maurice Prendergast  
Neil Craig  
Mike Caird

The Directors can be contacted at Pohutukawa's address below.

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#### OFFICES OF POHUTUKAWA

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#### INVESTMENT MANAGER

Direct Capital IV Management Limited  
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#### AUDITORS

KPMG  
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#### SHARE REGISTRY

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