# Pohutukawa Private Equity Limited

Annual Report
For the year ended 31 December 2019

# Contents

# Statement of comprehensive income

**For the year ended 31 December 2019**

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| Interest income | | 216,426 | 23,064 |
| Dividend income | | - | 10,751 |
| Change in fair value of investments | *7(a)* | (25,156) | (319,522) |
| Profit/(Loss) on realisation of investments | *7(a)* | 877,073 | - |
| Impairment of loans to portfolio companies | *8* | (22,652) | (6,000) |
| Reversal of impairment of loans to portfolio companies | *8* | 959,331 | - |
| Administrative expenses | *5* | (45,950) | (120,514) |
| Movement in earnout provision | *14* | (374,320) | 82,650 |
| **Operating profit/(loss) before tax** | | 1,584,752 | (329,571) |
| Income tax expense | *6* | - | - |
| **Profit/(loss) for the year** | | 1,584,752 | (329,571) |
| Other comprehensive income for the year | | - | - |
| **Total comprehensive income for the year** | | 1,584,752 | (329,571) |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the parent | | 185,345 | (74,882) |
| Equity holders of investment companies | *3a(iv)* | 1,399,407 | (254,689) |
| **Profit and total comprehensive income for the year attributable to the equity holders of stapled securities** | | 1,584,752 | (329,571) |

# Statement of changes in equity

**For the year ended 31 December 2019**

| | Attributable to equity holders of the parent | | | Attributable to equity holders of investment companies | |
|---|---|---|---|---|---|
| | Share capital | Retained losses | Total | | Total equity |
| Balance at 1 January 2019 | 15,565,274 | (11,926,753) | 3,638,521 | (3,424,159) | 214,362 |
| Total comprehensive income for the year | - | 185,345 | 185,345 | 1,399,407 | 1,584,752 |
| Distributions to equity holders | - | (1,736,615) | (1,736,615) | (19,224) | (1,755,839) |
| Balance at 31 December 2019 | 15,565,274 | (13,478,023) | 2,087,251 | (2,043,976) | 43,275 |
| | | | | | |
| Balance at 1 January 2018 | 15,565,274 | (11,851,871) | 3,713,403 | (3,169,470) | 543,933 |
| Total comprehensive income for the year | - | (74,882) | (74,882) | (254,689) | (329,571) |
| Balance at 31 December 2018 | 15,565,274 | (11,926,753) | 3,638,521 | (3,424,159) | 214,362 |

# Statement of financial position

**As at 31 December 2019**

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | *11* | 39,272 | 137,560 |
| Other receivables | *9* | 10,503 | 49,487 |
| Loans to portfolio companies | *8* | - | 24,693 |
| **Total current assets** | | 49,775 | 211,740 |
| | | | |
| Investments – equity securities | *7(b)* | - | 144,519 |
| **Total non-current assets** | | - | 144,519 |
| **Total assets** | | 49,775 | 356,259 |
| | | | |
| **Equity** | | | |
| Issued capital | *12* | 15,565,274 | 15,565,274 |
| Retained losses | | (13,478,023) | (11,926,753) |
| **Total equity attributable to equity holders of the parent** | | 2,087,251 | 3,638,521 |
| | | | |
| **Equity attributable to equity holders of investment companies** | *3a(iv)* | (2,043,976) | (3,424,159) |
| **Total equity attributable to equity holders of stapled securities** | | 43,275 | 214,362 |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | *13* | 6,500 | 87,012 |
| **Total current liabilities** | | 6,500 | 87,012 |
| | | | |
| Earnout provision | *14* | - | 54,885 |
| **Total non-current liabilities** | | - | 54,885 |
| **Total liabilities** | | - | 141,897 |
| | | | |
| **Total equity and liabilities** | | 49,775 | 356,259 |

For and on behalf of the Board

Director

20 March 2020
Date

Director

20 March 2020
Date

KPMG

# Statement of cash flows

**For the year ended 31 December 2019**

| | *Note* | *2019* | 2018 |
|---|---|---|---|
| **Cash flows from/(to) operating activities** | | | |
| Interest received | | 250,506 | 10,137 |
| Dividends received | | - | 10,751 |
| Cash paid to suppliers | | (112,960) | (47,124) |
| Interest paid | | - | (1,827) |
| Taxation paid | | (6,557) | |
| Distribution of earnout | *14* | (429,205) | - |
| **Net cash from/(to) operating activities** | *15* | (298,216) | (28,063) |
| **Cash flows from/(to) investing activities** | | | |
| Loans repaid by portfolio companies | | 959,331 | - |
| Proceeds from sale of investments | | 996,436 | - |
| **Net cash from/(to) financing activities** | | 1,955,767 | - |
| **Cash flows from/(to) financing activities** | | | |
| Distributions to equity holders | | (1,755,839) | - |
| **Net cash from/(to) financing activities** | | (1,755,839) | - |
| Net movement in cash and cash equivalents | | (98,288) | (28,063) |
| Cash and cash equivalents at 1 January | | 137,560 | 165,623 |
| **Cash and cash equivalents at 31 December** | *11* | 39,272 | 137,560 |

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# Notes to the consolidated financial statements

## 1. Reporting entity

Pohutukawa Private Equity Limited (the "Company") is a company incorporated and domiciled in New Zealand. Pohutukawa Private Equity Limited and the 4 (2018: 4) Investment Companies, refer Note 19, are registered under the *Companies Act 1993* and are reporting entities for the purposes of the *Financial Reporting Act 2013* and the *Financial Markets Conduct Act 2013*. The consolidated financial statements of the Group for the year ended 31 December 2019 comprise the Company and 4 (2018: 4) Investment Companies (together referred to as the "Group").

Pohutukawa Private Equity Limited is primarily involved in private equity investment made through the Investment Companies.

The financial statements were approved by the Directors on 20 March 2020.

## 2. Basis of preparation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for Tier 1 for-profit oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

### (b) Basis of measurement

The Directors have agreed to wind up the Group as the investments held have been realised. Therefore, the going concern basis of preparing financial statements has not been applied and the financial statements have been prepared on a non-going concern basis. Considering the nature of the Group's assets and liabilities, the change in the basis of preparation did not materially impact the financial statements as at and for the year ended 31 December 2019.

### (c) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Groups functional currency, and rounded to the nearest dollar.

### (d) Use of estimates and judgements

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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# Notes to the consolidated financial statements

## 2. Basis of preparation (continued)

### (d) Use of estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 7 - Investments – equity securities
- Note 14 – Earnout provision
- Note 16 – Financial risk management

## 3. Significant accounting policies

As stated above, the financial statements are prepared on a non-going concern basis. Accordingly, all assets and liabilities are recorded at their net realisable value or other basis as stated in the specific accounting policies. The basis of preparation and consequential impact on the specific accounting policies have been applied as at the reporting date. Comparative figures have not been restated. The change in accounting policy at reporting date has not had a material effect on the financial statements.

### (a) Basis of consolidation

#### (i) Stapled securities

For every ordinary share held in Pohutukawa Private Equity Limited, investors also hold 100 preference shares in Pohutukawa Private Equity Limited as well as one preference share in each of the 4 (2018: 4) 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 Limited as the acquirer and the parent entity for the purpose of preparing consolidated financial statements. The 4 (2018: 4) companies combining under the stapling arrangement are designated as the Investment Companies, refer Note 19, which invest in Portfolio Companies, refer Note 7.

The Group and Investment companies are deemed to be Investment Entities as they invest shareholder's funds solely for returns on investments from capital appreciation, interest and dividends.

#### (ii) Associates

Investments in equity securities (i.e. the Portfolio Companies), which would normally be classified as investments in unlisted associates, are carried at fair value in the consolidated financial statements and are not equity accounted (see accounting policy 3 (b)). This is due to the fact that the parent and group are private equity investors.

#### (iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

#### (iv) Equity attributable to equity holders of investment companies

Equity attributable to equity holders of 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.

# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (b) Investments in equity securities

The Group's investments in unlisted equity securities are financial assets designated at fair value through profit or loss 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.

Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Groups investment strategy. Regular purchases and sales of investments are recognised on a trade-date basis, being the date on which the Group commits to purchase or sell the asset.

### (c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, short-term deposits with an original maturity of 90 days or less and bank overdrafts. Cash excludes short-term deposits that are not used as part of the Group's day-to-day cash management.

### (d) Impairment

The carrying amounts of the Group's assets, other than investments in unlisted equity securities (see accounting policy 3(b)), and deferred tax assets (see accounting policy 3(i)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed in profit or loss if there has been a change in the estimates used to determine the recoverable amount.

### (e) Share capital

#### (i) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

#### (ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

#### (iii) Dividends

All dividends are recognised as a liability in the period in which they are declared.

# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (f) 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 profit or loss over the period of the borrowings on an effective interest rate basis.

### (g) Trade and other payables

Trade and other payables are stated at amortised cost.

### (h) Revenue

#### (i) Equity investments

Movements in the fair value of the Group's investments in equity instruments are recognised in profit or loss. Dividend income is recognised in profit or loss on the date the entity's right to receive payments is established.

#### (ii) Interest income

Interest income is recognised as revenue in profit or loss as it accrues, using the effective interest rate method.

### (i) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

## 4. Determination of fair values

There are no longer any investments in unlisted equity securities.

# Notes to the consolidated financial statements

## 5. Administrative expenses

| | 2019 | 2018 |
|---|---|---|
| Management fees | 15,449 | 77,000 |
| Other administrative expenses | 30,501 | 43,514 |
| | 45,950 | 120,514 |

The following items of expenditure are included in administrative expenses:

| | | |
|---|---|---|
| Auditor's remuneration to KPMG comprises: | | |
| Audit of financial statements | 6,500 | 8,513 |
| | 6,500 | 8,513 |

## 6. Income tax expense

| | 2019 | 2018 |
|---|---|---|
| Income tax expense in statement of comprehensive income | - | - |

### Reconciliation of effective tax rate

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| Profit/(loss) before tax | | 1,584,752 | (329,571) |
| Income tax expense/(benefit) at 28% tax rate | | 443,731 | (92,280) |
| Non-assessable income | | (535,073) | (23,142) |
| Non-deductible expenses | | 139,070 | 91,146 |
| Imputation credits received | | - | (3,010) |
| Tax (profit)/losses not recognised | *10* | (47,728) | 27,286 |
| Total income tax expense in statement of comprehensive income | | - | - |

### Imputation credits

| | 2019 | 2018 |
|---|---|---|
| Imputation credits available to shareholders of the parent company in subsequent reporting periods: | | |
| Through investment companies | 57,312 | 57,312 |
| | 57,312 | 57,312 |

# Notes to the consolidated financial statements

## 7. Investments – equity securities

### Non-current investments

The Group had a number of investments in unlisted equity securities.

The following table lists the investments held at the end of the 2018 reporting period and the underlying cost of the initial acquisition. The difference between the cost and the carrying value in the statement of financial position is shown as a fair value movement through profit or loss.

**2018**

| Entity name | Activities | Acquisition date | Cost of acquisition |
|---|---|---|---|
| BioPacificVentures | Private equity vehicle | Various | 896,402 |
| Stratex Group Limited | Manufacturing | Apr 2007 | 3,598,812 |
| Fishpond Limited | Online retail | Oct 2009 | 772,348 |
| | | | 5,267,562 |

At the end of the 2019 reporting period no investments were held.

### 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).

| 31 December 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | - | - | - | - |

| 31 December 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments | - | - | 144,519 | 144,519 |

There have been no transfers between levels during the year.

# Notes to the consolidated financial statements

## 7. Investments – equity securities (continued)

### a) Fair value hierarchy (continued)

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

| **Investments** | **2019** | **2018** |
|---|---|---|
| Opening balance | 144,519 | 464,041 |
| Total gains (or losses): | | |
| Change in fair value | 851,917 | (319,522) |
| Divestments | (996,436) | - |
| Closing balance | - | 144,519 |

Total gains (or losses) included in profit or loss for the year in the above table are presented in the statement of comprehensive income as follows:

| **Investments** | **2019** | **2018** |
|---|---|---|
| Total gains (or losses) included in profit or loss for the year | 851,917 | (319,522) |
| Total gains (or losses) for the year included in profit or loss for assets held at the end of the reporting period | - | (319,522) |

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.

### b) Fair value of investments portfolio

As investments in equity securities are carried at fair value through profit and loss in the Group, the results and net assets of the Portfolio Companies are not recognised in these financial statements. There are no remaining investments as at 31 December 2019 (2018: $144,519).

### c) Gain / (Loss) on realisation of investments

All remaining investments were realised in the year ended 31 December 2019 resulting in a gain on realisation of $877,073 (2018: $Nil).

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# Notes to the consolidated financial statements

## 8. Loans to portfolio companies

| | 2019 | 2018 |
|---|---|---|
| Stratex Group Limited | - | - |
| Vital Food Processors Limited | - | 19,224 |
| Coda Therapeutics Inc | - | 5,469 |
| | - | 24,693 |
| *Represented by:* | | |
| Non-current loans | - | - |
| Current loans | - | 24,693 |
| | - | 24,693 |

## 9. Other receivables

| | 2019 | 2018 |
|---|---|---|
| Income tax receivable | 6,573 | 15 |
| Prepayments | 3,163 | 3,987 |
| GST receivable | 766 | 125 |
| Other receivables | 1 | 45,360 |
| | 10,503 | 49,487 |

As at 31 December 2019, no receivables are considered past due (2018: $Nil).

## 10. Deferred tax assets and liabilities

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| Opening balance 1 January | | 763,076 | 1,294,587 |
| Tax loss not recognised | *6* | (47,728) | 27,286 |
| Tax loss foregone | | - | (558,797) |
| Closing balance 31 December | | 715,348 | 763,076 |

Due to the nature of the stapled securities and the fact that ordinary shares in the Investment Companies are owned by Pohutukawa I Investment Holdings LP, there is no ability to offset losses between the Parent (Pohutukawa Private Equity Limited) and the Investment Companies.

Tax losses do not expire, subject to shareholder continuity rules being met. Deferred tax assets have not been recognised in respect of these items because it is uncertain that future taxable profit will be available against which the Group can utilise the benefit.

Investment Companies taxation losses cannot be used by the parent.

# Notes to the consolidated financial statements

## 11. Cash and cash equivalents

| | 2019 | 2018 |
|---|---|---|
| Call deposits | 39,272 | 6,539 |
| Short-term deposits | - | 131,021 |
| Cash and cash equivalents in the statement of cash flows | 39,272 | 137,560 |

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate for 2019 on call deposits was 1.84% (2018: 2.03%).

Short-term deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate on short-term deposits was 3.05% (2018: 3.14%).

## 12. Share capital

### Share capital

| **Consolidated** | Investment Co's Preference shares | | PPE Ordinary shares | | PPE Preference shares | |
|---|---|---|---|---|---|---|
| *In millions of shares* | 2019` | 2018 | 2019 | 2018 | 2019 | 2018 |
| On issue at 1 January | 212 | 424 | 53 | 53 | 1,581 | 1,581 |
| Redemption and cancellation of shares | - | (212) | - | - | - | - |
| On issue at 31 December | 212 | 212 | 53 | 53 | 1,581 | 1,581 |

Preference shares are only redeemable at the option of the issuer.

At 31 December 2019, the share capital of the Company comprised 53,000,000 ordinary shares (2018: 53,000,000), and 1,581,527,700 preference shares (2018: 1,581,527,700). In addition, there are 212,000,000 (2018: 212,000,000) preference shares in the 4 (2018: 4) Investment Companies (53,000,000 in each company).

Ordinary shares and Investment Company preference shares have been allotted at nil value. The Pohutukawa Private Equity preference shares have been allotted at $0.01 per share.

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to one vote per share at meetings of the Company. Distributions of $1,755,839 ($0.03 per share) were declared during the year by companies within the Group to shareholders (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.

Pohutukawa I Investment Holdings LP is a related party which holds 100 ordinary shares in each of the Investment Companies.

# Notes to the consolidated financial statements

## 13. Trade and other payables

| | *Note* | **2019** | **2018** |
|---|---|---|---|
| Management fees payable | *17(b)* | - | 77,000 |
| Audit fees payable | | 6,500 | 10,012 |
| | | 6,500 | 87,012 |

## 14. Earnout Provision

| | **2019** | **2018** |
|---|---|---|
| Opening provision | 54,885 | 137,535 |
| Movements during the year | 374,320 | (82,650) |
| Distribution of earnout during the period | (429,205) | - |
| Closing earnout provision | - | 54,885 |

In accordance with clause 11 of the Prospectus, the Earnout Holder is entitled to earnout calculated at 20% of net returns to Pohutukawa Private Equity 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 31 December 2019 there is no further provision for earnout (2018: $54,885). During the year ended 31 December 2019 earnout of $429,205 (2018: $Nil) has been distributed to the Earnout Holder.

## 15. Reconciliation of profit/ (loss) after taxation to the net cash flow from/(to) operating activities

| | *Note* | **2019** | **2018** |
|---|---|---|---|
| Profit/(loss) for the year | | 1,584,752 | (329,571) |
| | | | |
| Adjustments for: | | | |
| Change in fair value of investments | | (916,991) | 319,522 |
| Gain on realisation of investment | | (877,073) | - |
| Net impairment of loans from portfolio companies | | 5,468 | 6,000 |
| Change in trade and other receivables | | 47,583 | (7,791) |
| Change in trade payables and accruals | | (80,512) | 66,427 |
| Change in taxation receivable | | (6,558) | - |
| Change in earnout provision | *14* | (54,885) | (82,650) |
| Net cash flow from/(to) operating activities | | (298,216) | (28,063) |

# Notes to the consolidated financial statements

## 16. Financial risk management

### Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- equity price risk
- credit risk
- interest rate risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

### Equity price risk

The Group has policies in place to mitigate equity price risk, particularly in its investments. This includes detailed analysis of prospective equity investments. Investments in unlisted equity securities are, by their nature, less liquid and subject to greater equity price risk than listed securities.

### Credit risk

Exposure to credit risk arises in the normal course of the Group's business from its loans and receivables and bank balances. The Group does not require collateral in respect of financial assets. At reporting date there were no significant concentrations of credit risk, other than those detailed in Note 8.

The Group invests its surplus funds in short-term deposits with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. (See Note 11). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position.

### Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business from bank accounts, short-term deposits and loans advanced to portfolio companies which the Investment Companies hold an ownership interest in. The Group earns interest on bank accounts, short-term deposits and loans to portfolio companies. Management invest excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required. The Group may also borrow short-term funds at floating rates due to the short-term nature of these borrowings.

### Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances, and short-term deposits. At balance date the effective interest rates for bank balances are 1.25% (2018: 1.50%), there are no short-term deposits (2018: 3.10%).

Bank balances reprice daily, short-term deposits reprice within 3 months, and loans advanced to portfolio companies reprice annually.

### Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations to settle its financial liabilities when due. The Group evaluates its liquidity requirements on an ongoing basis, and maintains sufficient cash to meet all obligations. Investments in unlisted equity securities are, by their nature, less liquid.

# Notes to the consolidated financial statements

## 16. Financial risk management (continued)

### Interest rate risk – repricing analysis

| | Note | Total | Non interest bearing | Interest bearing |
|---|---|---|---|---|
| **2019** | | | | |
| Cash and cash equivalents | *11* | 39,272 | - | 39,272 |
| Loans to portfolio companies | *8* | - | - | - |
| **Total** | | **39,272** | **-** | **39,272** |
| **2018** | | | | |
| Cash and cash equivalents | *11* | 137,560 | - | 137,560 |
| Loans to portfolio companies | *8* | 24,693 | 24,693 | - |
| **Total** | | **162,253** | **24,693** | **137,560** |

### Capital management

The Group's capital includes share capital and retained earnings.

The Group's policy is to maintain its capital structure in terms of the prospectus and repay capital as investments are realised.

The Group is not subject to any externally imposed capital requirements.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the year.

# Notes to the consolidated financial statements

## 16. Financial risk management (continued)

### Classification and fair values

| | Note | Designated at fair value through profit or loss | Amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | *11* | - | 39,272 | 39,272 | 39,272 |
| **Total assets** | | **-** | **39,272** | **39,272** | **39,272** |
| **Liabilities** | | | | | |
| Trade and other payables | *13* | - | 6,500 | 6,500 | 6,500 |
| **Total liabilities** | | **-** | **6,500** | **6,500** | **6,500** |

| | Note | Designated at fair value through profit or loss | Amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | *11* | - | 137,560 | 137,560 | 137,560 |
| Investments in equity securities | *7* | 144,519 | - | 144,519 | 144,519 |
| Loans to portfolio companies | *8* | - | 24,693 | 24,693 | 24,693 |
| Other receivables | *9* | - | 45,360 | 45,360 | 45,360 |
| **Total assets** | | **144,519** | **207,613** | **352,132** | **352,132** |
| **Liabilities** | | | | | |
| Trade and other payables | *13* | - | 87,012 | 87,012 | 87,012 |
| **Total liabilities** | | **-** | **87,012** | **87,012** | **87,012** |

# Notes to the consolidated financial statements

## 17. Related parties

### a) Identity of related parties

The Company has a related party relationship with its Investment Companies (see Note 19).
Craigs Investment Partners Limited, as the administration manager, and Direct Capital Management Limited, as the investment manager, own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited. Craigs Investment Partners Limited and Direct Capital III Investment Partners LP are limited partners in Pohutukawa I Investment Holdings LP which is the holder of ordinary shares in the Investment Companies. Certain directors of the Company and the Investment Companies are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital Management Limited. Direct Capital Management Limited is responsible for preparing valuations of investments.

### b) Transactions with related parties

During the year, the Group entered into the following transactions with related parties:

- No management fees were paid to Pohutukawa Management Limited in the year ended 31 December 2019 (2018: $77,000). As at 31 December 2019 no amount was outstanding (2018: $77,000).
- Surplus cash has been invested in ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Earnout of $429,205 was distributed to Pohutukawa I Investment Holdings LP (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.

### c) Transactions with key management personnel

| | 2019 | 2018 |
|---|---|---|
| Directors fees (total remuneration) | - | - |

The balance owing to key management personnel at 31 December 2019 is $Nil (2018: $Nil). Directors are no longer remunerated.

### d) Directors holding office during the year

Neil Craig
John McDonald

## 18. Subsequent events

There were no material subsequent events for the Group.

## 19. Group entities

| Investment Companies | Country of incorporation | Ownership interest* 2019 | Ownership interest* 2018 |
|---|---|---|---|
| Pohutukawa Alpha Investments Limited (“Alpha”) | New Zealand | 0% | 0% |
| Pohutukawa Delta Investments Limited (“Delta”) | New Zealand | 0% | 0% |
| Pohutukawa Zeta Investments Limited (“Zeta”) | New Zealand | 0% | 0% |
| Pohutukawa Mu Investments Limited (“Mu”) | New Zealand | 0% | 0% |

***As** stated in Note 3(a)(i), the preference shares in the Investment Companies are owned by the individual shareholders of Pohutukawa Private Equity Limited but are consolidated into the Group as they are stapled securities.

KPMG

# Independent Auditor's Report

To the Shareholders of Pohutukawa Private Equity Limited

**Report on the consolidated financial statements**

## Opinion

In our opinion, the accompanying consolidated financial statements of Pohutukawa Private Equity Limited (the Company) and its subsidiaries (the Group) on pages 3 to 20:

i. Present fairly in all material respects the Group's financial position as at 31 December 2019 and its financial performance and cash flows for the year ended on that date; and

ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— The consolidated statement of financial position as at 31 December 2019;

— The consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— Notes, including a summary of significant accounting policies and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to reviewing annual tax returns. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

## Emphasis of matter

We draw attention to Note 2(b) to the consolidated financial statements which describes that the going concern basis of preparing the consolidated financial statements has not been used because the intention of the Directors is to wind up the Group within the next 12 months. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. Due to the stage in the lifecycle of the Group, it was determined that there were no KAMs to report.

## Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information may include the Report to Shareholders, Manager's Report on Portfolio Companies and the Directors' Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

## Use of this independent auditor's report

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

## Responsibilities of the Directors for the consolidated financial statements

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

- The preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- Implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and 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 audit of the consolidated financial statements

Our objective is:

- To obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- To issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Glenn Keaney.

For and on behalf of

KPMG

KPMG
Tauranga

20 March 2020