

## INTERIM REPORT

For the half year ended 30 June 2013



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## Report to Shareholders

23 September 2013

Dear Shareholder

I am pleased to present Pohutukawa's interim report. Included is Pohutukawa's financial performance for the half year to 30 June 2013, and the Manager's update on the portfolio performance.

### The Market and Portfolio Performance

The New Zealand economy has generally shown a pick-up in consumer and business confidence with improving consumer spending and credit growth, and increasing business investment. Economic news from listed companies has generally been positive with increasing profit performances evident. Interest rates remain at historical lows. New Zealand continues to be in a much stronger economic position when compared to many other countries. The Canterbury rebuild continues to support the construction sector, a softer NZ\$/US\$ rate is helping exporters and a strong housing market has boosted consumer confidence.

Our portfolio companies have traded profitably. However Shears & Mac recently has not and our shares in this company

were sold to the executive shareholders after the period, resulting in a 3% reduction in the portfolio value since December 2012. The investment manager determined that divestment was the most appropriate course of action.

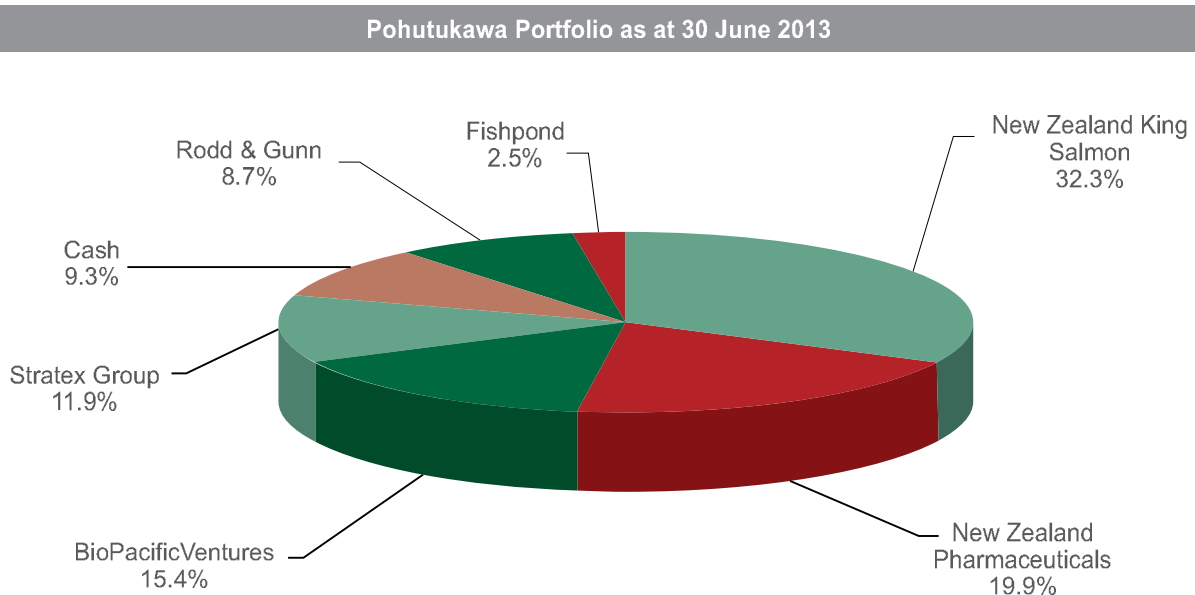
New Zealand King Salmon, one of our largest investments experienced lower fish production levels in a rising fish price environment and also had to deal with the soaring cost of its successful Environmental Protection Authority EPA application.

### Follow-on Investments

There were follow-on investments of \$295,000 made in Stratex Group to assist with expansion of their services through a print and lamination plant upgrade. This will enable Stratex to secure new business through gaining end-customer relationships. Apart from this follow-on investment there was also a small follow-on investment made into BioPacific Ventures during the 6 month period to 30 June 2013.

Pohutukawa's current remaining cash reserves (approximately \$2.5m) are held for follow-on investment commitments to the existing portfolio companies and to BioPacific Ventures (BPV).

*Portfolio composition as at 30 June 2013 (as a % of investment cost)*



## Report to Shareholders

Five investments remain in the portfolio, plus the interest in BioPacificVentures (BPV), with the two largest portfolio companies by portfolio value representing 64% of the portfolio value (investment cost portion 52%).

### Portfolio Company Realisations

No portfolio companies were realised in the period although our investment in Shears & Mac was realised in August 2013.

### Distributions

Pohutukawa made no distribution during the 6 month period to 30 June 2013.

At 30 June 2013 Pohutukawa has realised investment proceeds of \$64.8 million. You have so far received back by way of dividend and capital returns, \$1.088 gross (net \$1.012) per Pohutukawa share from your original \$1 per share investment.

### Investment Capital

Pohutukawa is able to invest up to \$53 million (the original committed capital) in portfolio companies which has been fully drawn from shareholders. Our total investments to date total \$48.6 million (comprising investments in and loans to portfolio companies). Pohutukawa is therefore able to invest up to another \$4.4 million into the existing portfolio companies. To do this we will utilise our current cash reserves of \$2.5 million and if required re-invest initial invested capital as it is returned from portfolio companies.

### Portfolio Revaluation

The Manager revalues the remaining portfolio quarterly in line with the Australian Private Equity & Venture Capital Association (AVCAL) valuation guidelines. The overall Net Asset Value (including the market value of the portfolio) has fallen 6.7% since 31 December 2012. As at 30 June 2013 the portfolio investment value was \$27.1 million (excluding cash) or 51 cps, and including cash and receivables approximately 57 cps. After allowing for the manager's earn-out of approximately 13 cps the estimated net asset backing is approximately 44 cps.

### Investor Return to Date

Shareholders total dollar return to 30 June 2013 from their original \$1 investment is as follows:

#### Investors Gross Return to 30 June 2013

<b>Original investment</b>	<b>\$1.00</b>
December 2007	0.35
November 2008	0.08
June 2009	0.02
December 2009	0.18
March 2010	0.10
March 2011	0.03
May 2012	0.32
Assessed Net Asset Value*	0.57
<b>Estimated Gross Return*</b>	<b>\$1.65</b>
<b>Return multiple before earnout</b>	<b>1.65x</b>

\*Excludes manager's earnout currently estimated to be \$0.13

### Interim Financial Statements 30 June 2013

Our unaudited interim financial statements for the period ending 30 June 2013 are included in this interim report.

As at 30 June 2013 Pohutukawa had 53 million fully paid \$1 shares (stapled securities) on issue.

At balance date shareholders' funds were valued at \$30.11 million. Pohutukawa has no borrowings.

Assets comprised:

● Investments-equity	\$17.19 million
● Cash	\$2.91 million
● Loans and Receivables (portfolio companies)	\$9.89 million
● Other current assets	\$0.16 million

Investments included revaluations of the portfolio as at 30 June 2013, under the fair value method.

The loans and receivables figure of \$9.89 million is valued at face value.

## Report to Shareholders

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The item non-controlling interest in the statement of financial position refers to the equity of the Investment Companies, as this is owned directly by shareholders of the parent and not by the parent company itself. These non-controlling interests are attributable to the parent company/Pohutukawa shareholders as a result of their investment in the preference shares of the Investment Companies.

Income was derived from interest of \$63,000 and dividend income of \$362,000. There was a decrease in fair value of the remaining investments of \$1.14 million and a loss of \$958,000 with the divestment of Shears & Mac, recognised in the Statement of Comprehensive Income as realised.

The total loss for the period was \$2.16 million.

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The Board acknowledges that the overall portfolio performance for this period was disappointing compared to the very pleasing results achieved in prior periods, particularly last year when we reached the milestone of the return of all original capital to shareholders.

The Board has expectations that the portfolio can generate satisfactory returns from future cash flows and from portfolio realisations.

Please continue to view the Pohutukawa website, [www.pohutukawafund.co.nz](http://www.pohutukawafund.co.nz) from time to time for investment and news updates. We provide a news alert email service and if you would like to avail yourself of this service please contact the Manager.

Thank you for your ongoing support of Pohutukawa and if you have any queries regarding your investment please call your Investment Adviser or Peter Lalor at Pohutukawa Management on 07 577 4727.

Yours sincerely,  
Pohutukawa Private Equity Limited



John McDonald  
Chairman

## Manager's Report on Portfolio Companies

The Manager is pleased to report on the financial performance of the portfolio companies for the 6 months to 30 June 2013.

A number of the portfolio companies are in a period of transition and this is reflected in the adverse change in portfolio company valuations during the period. The movement in valuations for the period (including Shears & Mac) equates to a reduction in Net Tangible Assets (NTA) of 4.1 cents per share or 6.7% of total NTA.

The Manager does not believe the adverse movement in the total unrealised valuation is a direct result of the wider economic environment in the region. A number of companies are trading in the challenging Australian market and results there to date have been satisfactory in aggregate. The shareholding in Shears & Mac was sold immediately after the period, accounting for a portion of the total NTA movement noted.

There are material and bold initiatives underway within New Zealand Pharmaceuticals, New Zealand King Salmon and Stratex Group. These initiatives are all significant for each company and each will take time to execute, rather than having short time frames. Consequently the Manager expects the change in the overall portfolio value to be dependent on the success and timing of these initiatives.

More detailed performance targets and prospects are highlighted in the portfolio company summaries that follow.

## NEW ZEALAND PHARMACEUTICALS

[www.nzpharmaceuticals.com](http://www.nzpharmaceuticals.com)



Shareholder Statement	Ordinary Shares %	Ordinary Shares Number	Shareholder Loan
Pohutukawa	15.6	4,594,451	1,432,185
Direct Capital III	16.3	4,802,108	1,496,916
Co-Investment	4.5	1,319,095	411,189
BioPacific Ventures	13.9	4,103,489	1,279,142
Management	49.7	14,636,483	16,746,568
<b>TOTAL</b>	<b>100.0</b>	<b>29,455,626</b>	<b>21,366,000</b>
Total Direct Capital shareholding 51.0%			

### Background

New Zealand Pharmaceuticals ("NZP") is an international supplier of specialised biopharmaceuticals and carbohydrates. In particular, it is a world leader in production of cholic acid, a core ingredient in the manufacture of a number of liver disease related pharmaceuticals. In addition to its animal extracts business (in which cholic acid is produced), NZP produces a number of synthesized carbohydrate chemicals.

### Performance

For the six months to 30 June 2013, financial results were slightly behind last year's excellent performance, with some softness in the bile acids sales market. Good progress continues in the company's product development work.

### Strategic Initiative

The company has committed \$12 million to expand its manufacturing capability in its core bile acid market. This capital expenditure will be incurred over the next 18 months.

### Outlook

The plant expansion activity will constrain capacity for the next 12 months, but ultimately result in a 23% increase in capacity. The sales outlook for the business is steady.

## Manager's Report on Portfolio Companies

### STRATEX GROUP

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



Shareholder Statement	Ordinary Shares %	Ordinary Shares Number	Shareholder Loan
Pohutukawa	32.8	3,598,812	98,397
Direct Capital III	42.6	4,668,049	127,822
Co-Investment	7.9	863,139	23,781
Management / Other	16.8	1,839,424	-
<b>TOTAL</b>	<b>100.0</b>	<b>10,969,424</b>	<b>250,000</b>
Total Direct Capital shareholding 83.2%			

#### Background

Stratex is a manufacturer of specialty base film and paper packaging materials used in the packaging industry. The company laminates varying combinations of paper, foil and film bases with polymer resins and adhesives to produce complex base materials used across a wide range of food packaging and industrial applications.

#### Performance

The company recently completed its financial year in line with expectations. A number of industry changes occurred during the year, the most significant of which was the acquisition by Amcor of flexible packaging group, Aperio. These changes have provided the opportunity for Stratex to enhance its strategic position in the New Zealand market. Accordingly, the company completed investment in a significant plant upgrade to enable it to secure its end-customer relationships more directly. We expect this strategy to bring benefits over the next 12-18 months.

#### Strategic Initiative

The company has committed \$3.5 million to new plant. This enables the company to deal directly with end users rather than via converters. This is a critical strategic initiative which is in the early stages of implementation, and proving successful to date. The ultimate success of this initiative will be apparent over the next twelve months.

#### Outlook

With investment in new print capabilities during the year the company has secured new contracts and it continues to tender for significant new work. We expect the earnings outlook for the company to improve from FY14, reflecting the full year value of the various initiatives undertaken.

## Manager's Report on Portfolio Companies

### RODD & GUNN

[www.roddandgunn.com](http://www.roddandgunn.com)



Shareholder Statement	Ordinary Shares %	Ordinary Shares Number	Shareholder Loan*
<b>Pohutukawa</b>	<b>11.9</b>	<b>1,193,770</b>	<b>119,377</b>
Direct Capital III	15.3	1,533,861	153,386
Co-Investment	2.7	272,369	27,237
Management	70.0	7,000,000	2,200,000
<b>TOTAL</b>	<b>100.0</b>	<b>10,000,000</b>	<b>2,500,000</b>
Total Direct Capital shareholding 30.0%			
<i>*Interest bearing</i>			

#### Background

Rodd & Gunn is a menswear apparel retailer, with 85 stores in malls, on high streets and department store concessions in Australia and New Zealand. Rodd & Gunn has a long established brand and targets the premium male customer. The business also owns Bing Harris, a brand targeted at the younger male consumer, with department store concessions in Australia and a small number of stores in New Zealand.

#### Performance

The core Rodd & Gunn brand has just completed an encouraging financial year to June, recording its second best annual profit result. Further progress continues to be made with the wholesaling business, with USA turnover in particular continuing to achieve strong growth, and overall this business has again made a positive contribution to the result. The new Bing Harris chain will take time to establish but there have been some encouraging results within the Myer department stores in particular.

#### Outlook

The retail environment remains challenging in both Australia and NZ. However the Company continues to invest in maximising its share of the menswear market and the strategic value of the business for the longer term.



## Manager's Report on Portfolio Companies

### NEW ZEALAND KING SALMON

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



Shareholder Statement	Ordinary Shares %	Ordinary Shares Number	Shareholder Loan
Pohutukawa	10.8	2,721,682	7,324,599
Direct Capital III	14.4	3,636,689	9,787,069
Co-Investment	16.5	4,160,379	11,175,224
Oregon	50.9	12,856,250	34,592,780
Management	7.5	1,892,695	4,680,410
<b>TOTAL</b>	<b>100.0</b>	<b>25,267,695</b>	<b>67,560,082</b>
Total Direct Capital shareholding 41.6%			

#### Background

Based in Nelson with farms in Marlborough and employing 417 staff, NZKS is New Zealand's largest integrated aquaculture company specialising in the farming and processing of Chinook salmon. With operations including breeding, farming, processing and distribution, the company has developed its business to include a strong domestic market, plus achieving premium price positioning in export markets along with a wide variety of value-added products such as smoked salmon, fillets, tailored portions and kebabs. It owns the strong consumer brands of Ora King, Regal and Southern Ocean.

#### Performance

The current company performance is below potential due to production issues on the sea farms. This has impacted the volume and quality of fish.

The domestic and export markets have continued to be strong with sales' values reaching record levels.

#### Strategic Initiative

In February 2013 the company was granted approval to establish four new farms in the Marlborough Sounds, which will enable the company to expand production to meet international demand. Subsequently, High Court appeals were lodged against the EPA decision. In August 2013 the High Court dismissed the appeals.

Two parties have now applied to the Supreme Court for leave to appeal the NZKS EPA application. At the time of

writing, no further information is available as to the likely timing of these further appeals.

To date the company has spent more than \$10 million and the process remains subject to appeal. The outcome of the appeal and the timing of new production will significantly impact on the company valuation.

#### Outlook

Global salmon prices have risen significantly over the last six months which support revenue targets for the financial year ahead, however with a reduction in stock levels, the volume output is expected to decrease slightly in the coming year.

The long term outlook is dependent on the EPA application to expand the number of farms and thus the company's ability to expand production.

## Manager's Report on Portfolio Companies

### FISHPOND

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



Shareholder Statement	Ordinary Shares %	Ordinary Shares Number
Pohutukawa	4.5	24,806
Direct Capital III	5.8	32,223
Co-Investment	1.8	9,930
Management	88.0	489,571
<b>TOTAL</b>	<b>100.0</b>	<b>556,530</b>
Total Direct Capital shareholding 12.0%		

#### Background

Fishpond is Australasia's largest local online retailer, offering a selection of more than 13 million products, including books, toys, games, music, movies, and health and beauty products amongst others.

#### Performance

Fishpond's financial year ended 31 March concluded with the business achieving revenue growth but a disappointing profit result. A major (and ongoing) financial and operating system overhaul saw the business divert significant management and financial resource into these projects, necessitated by the business being now many times larger than it was at the time of Pohutukawa's original investment. The financial cost of these initiatives, combined with system irregularities in the period preceding them, contributed to a disappointing profit result for the year.

#### Outlook

Fishpond's FY14 revenue is expected to be below that achieved in FY13 but at improved levels of profitability. As roughly 80% of sales are generated in Australia, the business (and its customers) have historically benefited from a high AUD/USD exchange rate, and a low NZD/AUD cross rate. Both exchange rates have moved adversely over the last 6 months.

Fishpond's sales mix is rapidly shifting from being dominated by books to other categories such as toys, health and beauty, kitchen, homeware, and other non-media categories. Non media sales are continuing to grow rapidly while physical book sales are expected to weaken.

## Manager's Report on Portfolio Companies

### BIOPACIFICVENTURES

[www.biopacificventures.com](http://www.biopacificventures.com)



Pohutukawa committed 10% of its capital (\$5.3m) to BioPacificVentures (BPV), a venture fund focused on the life sciences, food and agri-tech sectors, and in particular “wellness through prevention”.

Capital invested with BPV to date totals \$5.0million.

BPV has seven current investments. Activity of note includes:

*CoDa Therapeutics* has completed its first Phase 2 trial, targeting venous leg ulcers, the typical non-healing ulcers which plague elderly and bed-bound patients. The company is now engaging with the US Food & Drug Administration (FDA) to seek permission to commence even larger Phase 3 trials.

*Horizon Science* has made new discoveries about its patented extract of molasses. Based on the effect it has in the Low GI sugar product, LoGiCane™, further research has shown that it also affects blood glucose

and insulin levels directly. The company is using this now to pursue higher value markets such as medical foods suitable for diabetics and pre-diabetics.

*Vital Foods* has engaged a new CEO, Mr Justus Homburg, who has led the company in discussions with international companies with the potential to licence the company's products for international distribution.

BPV's two larger co-investments are with Direct Capital III / Pohutukawa in New Zealand Pharmaceuticals (NZP) and New Zealand King Salmon (NZKS).

These companies represent the five largest investments in the BPV portfolio.

## Financial Information

### Consolidated interim statement of comprehensive income

For the six months ended 30 June 2013

	<i>Note</i>	Unaudited 6 months Jun 2013	Unaudited 6 months Jun 2012	Audited 12 months Dec 2012
Interest Income	2	62,725	564,444	822,895
Dividend Income		361,590	267,506	282,266
Change in fair value of investments	1d	(1,138,627)	2,262,398	3,891,323
Gain / (loss) on realisation of investments	3	(957,899)	1,403,106	1,403,106
Other operating income		53,000	238,017	288,101
Administrative expenses		(527,388)	(633,016)	(1,207,138)
<b>Operating profit/(loss)</b>		<b>(2,146,599)</b>	<b>4,102,455</b>	<b>5,480,553</b>
<b>Profit/(loss) before tax</b>		<b>(2,146,599)</b>	<b>4,102,455</b>	<b>5,480,553</b>
Tax expense		(8,982)	(11,011)	(12,216)
<b>Profit/(loss) after tax</b>		<b>(2,155,581)</b>	<b>4,091,444</b>	<b>5,468,337</b>
<b>Attributable to:</b>				
Owners of the parent		120,858	244,696	225,020
Non-controlling interests	1c	(2,276,439)	3,846,748	5,243,317
<b>Profit/(loss) for the period</b>		<b>(2,155,581)</b>	<b>4,091,444</b>	<b>5,468,337</b>
Other comprehensive income for the period		-	-	-
<b>Profit/(loss) for the period attributable to the equity holders of stapled securities</b>		<b>(2,155,581)</b>	<b>4,091,444</b>	<b>5,468,337</b>

## Financial Information

### Consolidated interim statement of changes in equity

For the six months ended 30 June 2013

	Attributable to equity holders of the parent			Non-controlling interest	Total equity
	Share capital	Retained earnings	Total		
<b>Balance at 1 January 2013</b>	35,835,787	(2,656,051)	33,179,736	(908,106)	32,271,630
Total comprehensive income	-	120,858	120,858	(2,276,439)	(2,155,581)
<b>Balance at 30 June 2013</b>	<b>35,835,787</b>	<b>(2,535,193)</b>	<b>33,300,594</b>	<b>(3,184,545)</b>	<b>30,116,049</b>
<b>Balance at 1 January 2012</b>	41,734,006	(2,818,612)	38,915,394	4,717,915	43,633,309
Total comprehensive income	-	244,696	244,696	3,846,748	4,091,444
Distributions to equity holders	-	-	-	(635,381)	(635,381)
Repayment of preference shares	(5,898,219)	-	(5,898,219)	(10,296,416)	(16,194,635)
<b>Balance at 30 June 2012</b>	<b>35,835,787</b>	<b>(2,573,916)</b>	<b>33,261,871</b>	<b>(2,367,134)</b>	<b>30,894,737</b>
<b>Balance at 1 January 2012</b>	41,734,006	(2,818,612)	38,915,394	4,717,915	43,633,309
Total comprehensive income	-	225,020	225,020	5,243,317	5,468,337
Distributions to equity holders	-	(62,459)	(62,459)	(572,922)	(635,381)
Repayment of preference shares	(5,898,219)	-	(5,898,219)	(10,296,416)	(16,194,635)
<b>Balance at 31 December 2012</b>	<b>35,835,787</b>	<b>(2,656,051)</b>	<b>33,179,736</b>	<b>(908,106)</b>	<b>32,271,630</b>

## Financial Information

### Consolidated interim statement of financial position

As at 30 June 2013

	Note	Unaudited Jun 2013	Unaudited Jun 2012	Audited Dec 2012
<b>Assets</b>				
Loans and receivables	2	7,115,565	10,041,085	-
Investments – equity securities	3	17,185,967	17,779,379	19,282,490
<b>Total non-current assets</b>		<b>24,301,532</b>	<b>27,820,464</b>	<b>19,282,490</b>
Trade and other receivables	5	159,441	869,814	63,148
Loans and receivables	2	2,775,324	-	9,927,240
Cash and cash equivalents	4	2,905,773	2,241,301	3,059,514
<b>Total current assets</b>		<b>5,840,538</b>	<b>3,111,115</b>	<b>13,049,902</b>
<b>Total assets</b>		<b>30,142,070</b>	<b>30,931,579</b>	<b>32,332,392</b>
<b>Equity</b>				
Issued capital		35,835,787	35,835,787	35,835,787
Retained losses		(2,535,193)	(2,573,916)	(2,656,051)
<b>Total equity attributable to equity holders of the parent</b>		<b>33,300,594</b>	<b>33,261,871</b>	<b>33,179,736</b>
<b>Non-controlling interest</b>	1c	<b>(3,184,545)</b>	<b>(2,367,134)</b>	<b>(908,106)</b>
<b>Total equity attributable to equity holders of stapled securities</b>		<b>30,116,049</b>	<b>30,894,737</b>	<b>32,271,630</b>
<b>Liabilities</b>				
Trade and other payables		26,021	36,842	60,762
<b>Total current liabilities</b>		<b>26,021</b>	<b>36,842</b>	<b>60,762</b>
<b>Total liabilities</b>		<b>26,021</b>	<b>36,842</b>	<b>60,762</b>
<b>Total equity and liabilities</b>		<b>30,142,070</b>	<b>30,931,579</b>	<b>32,332,392</b>

For and on behalf of the Board



Director

6 September 2013

Date



Director

6 September 2013

Date

## Financial Information

### Consolidated interim statement of cash flows

For the six months ended 30 June 2013

	<i>Note</i>	Unaudited Jun 2013	Unaudited Jun 2012	Audited Dec 2012
<b>Cash flows from operating activities</b>				
Cash receipts from fees		53,000	238,017	288,101
Interest received		58,075	259,002	326,432
Dividends received		361,590	267,506	282,266
Income taxes paid		(8,982)	(11,285)	(11,285)
Income tax refunded		11,482	17,851	18,323
Interest paid		-	(3,030)	-
Cash paid to suppliers		(566,861)	(850,744)	(1,228,790)
<b>Net cash from operating activities</b>	<i>6</i>	<u>(91,696)</u>	<u>(82,683)</u>	<u>(324,953)</u>
<b>Cash flows from investing activities</b>				
Proceeds from realisation of investments		-	14,844,916	14,844,916
Loans repaid by portfolio companies		141,996	1,132,274	2,194,103
Loans advanced to portfolio companies		(204,041)	-	(1,346)
<b>Net cash from investing activities</b>		<u>(62,045)</u>	<u>15,977,190</u>	<u>17,037,673</u>
<b>Cash flows from financing activities</b>				
Repayment of preference shares		-	(16,194,635)	(16,194,635)
Distributions to equity holders		-	(635,381)	(635,381)
<b>Net cash from financing activities</b>		<u>-</u>	<u>(16,830,016)</u>	<u>(16,830,016)</u>
Net movement in cash and cash equivalents		(153,741)	(935,509)	(117,296)
Cash and cash equivalents at 1 January		3,059,514	3,176,810	3,176,810
<b>Cash and cash equivalents at end of period</b>	<i>4</i>	<u>2,905,773</u>	<u>2,241,301</u>	<u>3,059,514</u>

## Financial Information



### Notes to the consolidated interim financial statements

#### 1. Significant accounting policies

Pohutukawa Private Equity 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 2013 comprise the Company and 12 Investment Companies (30 June 2012:13) (together referred to as the “Group”).

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 2012.

The interim financial statements were approved by the Directors on 6 September 2013.

#### (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 2012.

#### (b) Basis of preparation

Pohutukawa Private Equity Limited and the Investment Companies are registered under the Companies Act 1993 and are issuers and reporting entities for the purposes of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the Financial Reporting Act 1993. The Group is profit-oriented.

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 Limited, investors also hold 100 preference shares in Pohutukawa Private Equity Limited as well as one preference share in each of the 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 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.

#### *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.



## Financial Information



### Notes to the consolidated interim financial statements

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

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

###### *Joint ventures*

Joint ventures are entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. In the case of the Group, this relates to the interest in the Partnership. Joint ventures are accounted for using the proportionate method.

A Partnership entity is in place between the Investment Company and the Portfolio Company for one investment (Fishpond Limited). The other partners in the Partnership are entities associated with Direct Capital III, the co-investors in the Portfolio Company. There is no effect on Pohutukawa Private Equity Limited shareholders resulting from this structure.

###### *Non-controlling Interest*

Non-controlling interest 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 non-controlling interests 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 unlisted equity securities are classified as 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 the profit or loss.

The fair value of investment in equity securities measured at their fair value is their quoted bid price at the reporting date, if available, or valuations. Investments in unlisted equity securities are valued in accordance with the valuation principles set out by Australian Private Equity and Venture Capital Association Limited (AVCAL).

##### (e) **Loans and receivables (investments in debt securities)**

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For disclosure purposes they are classified as loans and receivables.

## Financial Information

### Notes to the consolidated interim financial statements

#### 2. Loans and receivables

	Unaudited Jun 2013	Unaudited Jun 2012	Audited Dec 2012
New Zealand King Salmon Investments Limited <sup>2</sup>	7,920,210	7,115,565	8,062,202
Rodd & Gunn Limited <sup>3</sup>	119,377	119,377	119,377
NZP Holdings Limited <sup>2</sup>	1,610,214	2,672,044	1,610,217
Stratex Group Limited <sup>3</sup>	98,397	-	-
Horizon Science Pty Limited <sup>1</sup>	109,193	109,193	109,193
Rissington Breedline Limited <sup>1</sup>	26,251	24,906	26,251
Vital Food Processors Limited <sup>1</sup>	7,247	-	-
	<u>9,890,889</u>	<u>10,041,085</u>	<u>9,927,240</u>

(<sup>1</sup> Loans through the investments by BioPacificVentures)

(<sup>2</sup> Loans through the investments by Pohutukawa Private Equity Limited & BioPacificVentures)

(<sup>3</sup> Loan from Pohutukawa Private Equity Limited)

#### Represented by

	Unaudited Jun 2013	Unaudited Jun 2012	Audited Dec 2012
Non-current assets	7,115,565	10,041,085	-
Current assets	2,775,324	-	9,927,240
	<u>9,890,889</u>	<u>10,041,085</u>	<u>9,927,240</u>

The terms of the New Zealand King Salmon loan enable the capitalisation of the loans and interest into equity. The term of the loan is five years and the interest rate is set annually, currently 0% (30 June 2012: 15%). During the period previously capitalised interest of \$141,996 was repaid (30 June 2012: Nil). No interest income was accrued during the period relating to this loan. (30 June 2012: \$470,732)

## Financial Information

### Notes to the consolidated interim financial statements

#### 3. Investments

The Group has a number of 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, valuation techniques must be utilised to determine fair value.

The valuation techniques utilised include the use of market based earnings multiples and an adjustment factor of up to 20% for privately owned investments.

The difference between the cost of \$17,576,657 (30 June 2012: \$19,566,952) and the carrying value of \$17,185,967 (30 June 2012: \$17,779,379) in the statement of financial position is shown as a fair value movement through profit or loss.

The following details the unlisted equity securities held at 30 June 2013 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting interest	Jun 2013 Cost of acquisition	Jun 2012 Cost of acquisition	Dec 2012 Cost of acquisition
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.6%	4,775,157	4,775,157	4,775,157
BioPacificVentures	Private equity vehicle	Nov 2005	n/a	3,118,177	3,118,177	3,118,177
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812	3,598,812	3,598,812
Shears & Mac Limited	Manufacturing	June 2008	15.7%	-	1,990,295	1,990,295
Rodd & Gunn NZ Limited & Rodd & Gunn Australia Limited	Retail	Aug 2008	11.9%	2,590,481	2,590,481	2,590,481
NZ King Salmon Investments Limited	Food	Sept 2008	10.8%	2,721,682	2,721,682	2,721,682
Fishpond Limited	Online retail	Oct 2009	4.5%	772,348	772,348	772,348
				<b>17,576,657</b>	<b>19,566,952</b>	<b>19,566,952</b>

On 20 August 2013 the equity investment held in Shears & Mac Limited was realised resulting in a loss of \$957,899, which is recognised in these financial statements.

## Financial Information

### Notes to the consolidated interim financial statements

#### 4. Cash and cash equivalents

	Unaudited Jun 2013	Unaudited Jun 2012	Audited Dec 2012
Call deposits	224,621	474,888	426,390
Short-term deposits	2,681,152	1,766,413	2,633,124
	<u>2,905,773</u>	<u>2,241,301</u>	<u>3,059,514</u>

Call deposits are held on short-term deposit with the ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a 100% subsidiary of Craigs Investment Partners Limited. The interest rate at 30 June 2013 was 2.75% (June 2012: 3.00%).

Short-term deposits are held with ANZ Bank New Zealand Limited for periods of up to 90 days and have interest rates ranging from 3.63% to 3.64% (June 2012: 3.00 to 4.35%).

#### 5. Trade and other receivables

	Unaudited Jun 2013	Unaudited Jun 2012	Audited Dec 2012
Goods and services tax receivable	456	26,546	-
Income tax receivable	-	12,404	10,727
Interest receivable	41,630	769,106	36,980
Other receivables	117,355	61,758	15,441
	<u>159,441</u>	<u>869,814</u>	<u>63,148</u>

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

	Unaudited Jun 2013	Unaudited Jun 2012	Audited Dec 2012
Profit/(Loss) for the period	(2,155,581)	4,091,444	5,468,337
<i>Adjustments for:</i>			
Changes in fair value of investments - equity securities	1,138,627	(3,772,145)	(3,891,323)
Interest capitalised	-	-	(923,146)
Loss on realisation of investments	957,899	-	(1,403,106)
	<u>(59,055)</u>	<u>319,299</u>	<u>(749,238)</u>
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	(8,627)	(350,542)	454,452
Change in income tax receivable	11,481	17,577	19,254
Change in trade and other payables	(35,495)	(69,017)	(49,421)
Net cash from operating activities	<u>(91,696)</u>	<u>(82,683)</u>	<u>(324,953)</u>

## Financial Information

### Notes to the consolidated interim financial statements

#### 7. Related parties

##### a) 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 Limited own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited. Craigs Investment Partners Limited and Direct Capital III Investments Partners LP are partners in Pohutukawa I Investment Holdings LP which is the holder of 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 Limited and Craigs Investment Partners Limited.

Direct Capital Limited is responsible for preparing valuations of investments.

##### b) Transactions with related parties

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

- Management fees paid to Pohutukawa Management Limited totalled \$407,768 (30 June 2012: \$506,113).
- Call deposits have been invested into ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited. At 30 June 2013 the balance held was \$224,549 (30 June 2012: \$474,818).
- An amount of \$98,397 was held by Direct Capital Partners Limited as at 30 June 2013 as custodian. This amount was subsequently loaned to Stratex Group Limited.

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.

Additionally, loans were advanced by Pohutukawa Private Equity Limited to companies which the Investment Companies hold an ownership interest in (see Note 2).

##### c) Transactions with key management personnel

	Unaudited June 2013	Unaudited Jun 2012	Unaudited Dec 2012
Directors fees (total remuneration)	50,000	50,000	100,000

The balance owing to key management personnel at 30 June 2013 is \$25,000 (30 June 2012: 25,000)

#### 8. Subsequent events

As disclosed in Note 3, the equity investment in Shears & Mac Limited was sold on 20 August 2013. This transaction is recognised in these financial statements.

## Auditor's Review Report



### To the shareholders of Pohutukawa Private Equity Limited

We have completed a review of the interim financial statements on pages 11 to 20 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board and Review Engagement Standard RG-1 issued by the New Zealand Institute of Chartered Accountants. The financial statements provide information about the past financial performance of Pohutukawa Private Equity Limited and its financial position as at 30 June 2013.

### Directors' responsibilities

The Directors of Pohutukawa Private Equity Limited are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the Group as at 30 June 2013 and the results of its operations for the 6 month period ended on that date.

### Reviewers' responsibilities

It is our responsibility to express an independent opinion on the interim financial statements presented by the Directors and report our opinion to you.

### Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Partners and employees of our firm may also deal with the Group on normal commercial terms in the ordinary course of the Group's business. There are however certain trading restrictions which partners and employees of our firm have with the group. This matter has not impaired our independence as auditors of the Group. We have no relationship with or interests in the company.

### Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 11 to 20 do not give a true and fair view of the financial position of Group as at 30 June 2013 and the results of its operations and cash flows for the 6 month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 6 September 2013 and our opinion is expressed as at that date.

A handwritten signature in blue ink, appearing to read 'KPMG'.

Tauranga

## Directory

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### BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY

John McDonald  
Neil Craig  
Maurice Prendergast  
Frank Aldridge

The Directors can be contacted at Pohutukawa's registered office address set out below.

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### AUDITORS

KPMG  
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### MANAGER

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### INVESTMENT MANAGER

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