

## INTERIM REPORT

For the half year ended 30 June 2017





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## Report to Shareholders

October 2017

Dear Shareholder

I am pleased to present Pohutukawa's 2017 Interim Report. The report includes the financial statements for the interim period to 30 June 2017. There are two remaining direct investments in the portfolio, Stratex Group and Fishpond, plus an interest in BioPacific Ventures.

At 30 June 2017 the portfolio fair value was \$464,000, plus \$1.4m of cash. Net Asset Value at 30 June 2017 (after provision for earn-out) was 3 cents per share (cps).

### Distributions to Shareholders

A summary of gross returns made to Shareholders is shown in *Table 1*:

*Table 1 Summary of Investor Returns*

Gross Return to 30 June 2017	
Original investment	\$1.00
Gross Returns to Investors	
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
May 2015	0.03
April 2016	0.40
July 2016	0.10
November 2016	0.21
<b>Gross Return</b>	<b>1.82</b>
Assessed Net Asset Value 30 June 2017*	0.03
<b>Estimated Gross Return*</b>	<b>\$1.85</b>

\*After provision for earnout

As at 30 June, Pohutukawa had realised total investment proceeds of \$116.5 million (from \$53 million of subscribed capital) and shareholders have received back capital and gross dividend returns of \$1.82 per share from your original \$1.00 per share investment.

### Current Portfolio

- **Stratex** - While Stratex continues to improve its revenue and earnings a return to adequate profitability will take time.
- **Fishpond** has faced some challenges due to systems issues relating to a significant new initiative undertaken in the business. The business has made continued progress to address this challenge, and margins improved during the period.

### Portfolio Company Strategies

We will continue to support growth strategies for the remaining portfolio. We have sufficient cash available should portfolio companies require modest follow-on investment. The Investment Manager continues its disciplined approach to ensuring any further follow-on investment is value accretive for the companies.

### Go Forward Strategy

The Fund has just passed its 13<sup>th</sup> anniversary, and the Board in conjunction with our Investment Manager is reviewing all options to crystalize the residual value in the portfolio for the benefit of shareholders.

The options being considered include:

1. Realising the remaining investment assets as a portfolio. It is common in such secondary transactions that the remaining portfolio is realised at an agreed value, which may be at a discount to valuation, commensurate with the uncertain value and timing prospects for the residual assets. This would facilitate an immediate and final distribution of capital to shareholders, enabling Pohutukawa to distribute the remaining value efficiently, then complete an orderly wind-up process of the fund.



## Report to Shareholders

2. Alternatively, we continue the existing program, reduce the overhead cost structure and hold the residual investments, crystalizing value as and when it is achieved, company by company. This may require an additional holding period of up to two years and may not realise value beyond the current carrying value.

Accordingly, your Directors are considering the options between realising value now, but potentially at a value lower than at some future time, and enabling a final cash distribution to be made, or continuing to hold the residual investments for an indefinite time and the potential value uplift. We will keep you informed on our decision.

### Portfolio Company Investment Valuations

The total value of the portfolio company investments at the end of the financial period to 30 June 2017 was \$464,000. The Manager values each portfolio company each quarter using International Private Equity & Venture Capital valuation guidelines. Revaluations are completed for all portfolio companies. These valuations are reviewed annually as part of the annual audit.

The investment value includes shareholder loans that the Pohutukawa group has made to portfolio companies. The company valuations, are where applicable, based on the respective company financial performances.

### Interim Financial Statements 30 June 2017

Our interim financial statements for the half year ended 30 June 2017 and the KPMG audit review are included in this report.

As at 30 June 2017 Pohutukawa had 53 million stapled securities on issue, fully paid to \$1.

At balance date shareholder funds were \$1.64 million, equivalent to a net asset backing of 3 cps. The Fund is in a sound financial position with no debt.

Assets comprised:

- |               |                |
|---------------|----------------|
| • Investments | \$0.46 million |
| • Cash        | \$1.47 million |
| • Receivables | \$0.11 million |

Interest income of \$39,004 was received from bank deposits and recognised from shareholder loans. There was dividend income of \$8,023 with other sundry fee income of \$23,532. There was a \$300,140 negative movement in the fair value of investments plus a loan impairment of \$19,405. Administrative expenses were \$234,159, (June 2016: \$494,661). Expenses have been reduced during the period, by reducing the number of directors, director fees and management fees. There was a decrease in provision for earn-out of \$113,618.

The loss for the financial period was \$369,527, compared to a \$5,523,113 profit recorded in June 2016.

An earn-out provision of \$389,997 remains in the accounts for the period. Earn-out is calculated at 20% of the net returns of Pohutukawa, provided first that shareholders have received back in distributions their original investment plus a pre-tax compound return of 8% per annum. Shareholders received this pre-tax compound return in April 2016.

We will continue to keep you informed of any material portfolio developments through press announcements, or news updates on our website.

Thank you for your ongoing support of Pohutukawa Private Equity.

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

Yours sincerely  
POHUTUKAWA PRIVATE EQUITY LIMITED

John McDonald  
Chairman



## Manager's Report on Portfolio Companies

The Manager is pleased to report on the portfolio performance for the remaining portfolio for the interim period to 30 June 2017.

The Manager continues to be actively engaged and on the board of the remaining portfolio companies, encouraging the companies to focus on value generating initiatives. Whilst disappointed that

initiatives have not resulted in realising the remaining portfolio, the Manager continues to review opportunities to crystallise value as circumstances present.

We comment below on the remaining portfolio companies.

## STRATEX GROUP

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



### Performance

Stratex revenue in the last financial year grew 8.5% and earnings improved 7.0%, however profitability remains below expectations. Pleasingly, the company has secured several significant new contracts strategically important to the company. Initial establishment costs to implement these contracts has resulted in higher operational costs. The second stage of these contracts has now commenced, resulting in significant increases in production volumes, and manufacturing efficiency gains.

Forward orders remain at solid levels and the company is continuing to make progress in improving its operating margins. The key issue for the business is to continue this improvement and return profitability to levels that sustain its capital structure and continued growth.

### Outlook

Successful implementation of recent contracts secured will strengthen the company's market position and be of strategic importance in the regional flexibles packaging market.

## Manager's Report on Portfolio Companies

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### FISHPOND

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



#### Performance

Fishpond concluded its March financial year with strong revenue growth achieved, and earnings in line with the prior year as the business invested to achieve scale in its WorldFront marketplace initiative. WorldFront continues to achieve good levels of growth and secure new client partners.

#### Outlook

WorldFront is expected to become a large contributor of group revenue and profitability in the coming period on the back of new client partners and improved gross profit performance as scale is achieved in new market channels. Increased competition in online retail and new market entrants is

expected to continue to challenge Fishpond's own websites and sales channel.

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### BIOPACIFICVENTURES

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



There are only two small residual investments in BioPacificVentures; Vital Food Processors Ltd and CoDa Therapeutics. Both companies have limited prospects and the Manager does not expect to realise these investments above their carrying value.



## Financial Information

### Consolidated interim statement of comprehensive income

For the six months ended 30 June 2017

	<i>Note</i>	Unaudited 6 months Jun 2017	Unaudited 6 months Jun 2016	Audited 12 months Dec 2016
Interest Income		39,004	377,233	559,715
Dividend Income		8,023	-	19,255
Change in fair value of investments – equity securities	3	(300,140)	2,490,868	(229,677)
Impairment of loans and receivables		(19,405)	-	(939,926)
Reversal of impairment of loans and receivables		-	687,227	687,227
Gain/(loss) on realisation of investments		-	3,753,324	9,067,140
Other operating income - fees		23,532	50,032	97,096
Administrative expenses		(234,159)	(494,661)	(952,467)
(Increase)/decrease in earnout provision	6	113,618	(1,340,910)	(1,646,683)
<b>Operating profit/(loss) before tax</b>		<b>(369,527)</b>	<b>5,523,113</b>	<b>6,661,680</b>
Tax expense		-	-	-
<b>Profit/(loss) after tax</b>		<b>(369,527)</b>	<b>5,523,113</b>	<b>6,661,680</b>
<b>Attributable to:</b>				
Equity holders of the parent		(74,076)	5,672,057	184,062
Equity holders of the investment companies	1 c	(295,451)	(148,944)	6,477,618
<b>Profit/(loss) for the period</b>		<b>(369,527)</b>	<b>5,523,113</b>	<b>6,661,680</b>
Other comprehensive income for the period		-	-	-
<b>Total comprehensive income for the period attributable to the equity holders of stapled securities</b>		<b>(369,527)</b>	<b>5,523,113</b>	<b>6,661,680</b>





## Financial Information

### Consolidated interim statement of changes in equity

For the six months ended 30 June 2017

		Attributable to equity holders of the parent				
	Note	Share capital	Retained losses	Total	Non-controlling interest	Total equity
Unaudited						
Balance at 1 January 2017		16,482,605	(11,677,447)	4,805,158	(2,797,829)	2,007,329
Total comprehensive income		-	(74,076)	(74,076)	(295,451)	(369,527)
Redemption of share capital	7	-	-	-	-	-
Distributions to equity holders	7	-	-	-	-	-
Balance at 30 June 2017		16,482,605	(11,751,523)	4,731,082	(3,093,280)	1,637,802
Unaudited						
Balance at 1 January 2016		35,440,397	(11,861,509)	23,578,888	9,131,762	32,710,650
Total comprehensive income		-	5,672,057	5,672,057	(148,944)	5,523,113
Redemption of share capital	7	(5,551,102)	-	(5,551,102)	-	(5,551,102)
Distributions to equity holders	7	-	-	-	(15,648,898)	(15,648,898)
Balance at 30 June 2016		29,889,295	(6,189,452)	23,699,843	(6,666,080)	17,033,763
Audited						
Balance at 1 January 2016		35,440,397	(11,861,509)	23,578,888	9,131,762	32,710,650
Total comprehensive income		-	184,062	184,062	6,477,618	6,661,680
Redemption of share capital		(18,957,792)	-	(18,957,792)	-	(18,957,792)
Distributions to equity holders		-	-	-	(18,407,209)	(18,407,209)
Balance at 31 December 2016		16,482,605	(11,677,447)	4,805,158	(2,797,829)	2,007,329

## Financial Information

### Consolidated interim statement of financial position

As at 30 June 2017

	<i>Note</i>	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
<b>Assets</b>				
Loans receivable	2	-	8,298,545	-
Investments – equity securities	3	464,041	3,769,960	764,181
<b>Total non-current assets</b>		<b>464,041</b>	<b>12,068,505</b>	<b>764,181</b>
Trade and other receivables	5	81,476	1,420,342	70,934
Loans receivable	2	30,693	817,867	30,694
Cash and cash equivalents	4	1,465,419	7,001,251	1,694,260
<b>Total current assets</b>		<b>1,577,588</b>	<b>9,239,460</b>	<b>1,795,888</b>
<b>Total assets</b>		<b>2,041,629</b>	<b>21,307,965</b>	<b>2,560,069</b>
<b>Equity</b>				
Issued capital		16,482,605	29,889,295	16,482,605
Retained losses		(11,751,523)	(6,189,452)	(11,677,447)
<b>Total equity attributable to equity holders of the parent</b>		<b>4,731,082</b>	<b>23,699,843</b>	<b>4,805,158</b>
<b>Equity attributable to equity holders of investment companies</b>	<i>1 c</i>	<b>(3,093,280)</b>	<b>(6,666,080)</b>	<b>(2,797,829)</b>
<b>Total equity attributable to equity holders of stapled securities</b>		<b>1,637,802</b>	<b>17,033,763</b>	<b>2,007,329</b>
<b>Liabilities</b>				
Trade and other payables		13,830	34,110	49,125
Earnout provision		-	1,258,750	-
<b>Total current liabilities</b>		<b>13,830</b>	<b>1,292,860</b>	<b>49,125</b>
Earnout provision	6	389,997	2,981,342	503,615
<b>Total non-current liabilities</b>		<b>389,997</b>	<b>2,981,342</b>	<b>503,615</b>
<b>Total liabilities</b>		<b>403,827</b>	<b>4,274,202</b>	<b>552,740</b>
<b>Total equity and liabilities</b>		<b>2,041,629</b>	<b>21,307,965</b>	<b>2,560,069</b>

For and on behalf of the Board



Director

18 September 2017

Date



Director

18 September 2017

Date



## Financial Information

### Consolidated interim statement of cash flows

For the six months ended 30 June 2017

	<i>Note</i>	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
<b>Cash flows from operating activities</b>				
Cash receipts from fees		23,532	50,032	97,096
Interest received		19,678	84,204	282,246
Dividends received		8,023	48,138	67,394
Cash paid to suppliers		(280,074)	(586,394)	(937,287)
Distribution of earnout	6	-	(6,773,061)	(10,815,311)
<b>Net cash from operating activities</b>		<b>(228,841)</b>	<b>(7,177,081)</b>	<b>(11,305,862)</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of investments		-	33,921,166	49,006,354
Loans advanced to portfolio companies		-	-	(98,397)
<b>Net cash from investing activities</b>		<b>-</b>	<b>33,921,166</b>	<b>48,907,957</b>
<b>Cash flows from financing activities</b>				
Redemption of preference shares		-	(21,200,000)	(18,957,792)
Distributions to equity holders		-	-	(18,407,209)
<b>Net cash from financing activities</b>		<b>-</b>	<b>(21,200,000)</b>	<b>(37,365,001)</b>
<b>Net movement in cash and cash equivalents</b>		<b>(228,841)</b>	<b>5,544,085</b>	<b>237,094</b>
Cash and cash equivalents at 1 January		1,694,260	1,457,166	1,457,166
<b>Cash and cash equivalents at end of period</b>	4	<b>1,465,419</b>	<b>7,001,251</b>	<b>1,694,260</b>

### Reconciliation of profit/(loss) for the period with net cash from operating activities

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Profit/(Loss) for the period	(369,527)	5,523,113	6,661,680
<i>Adjustments for:</i>			
Changes in fair value of investments - equity securities	300,140	(2,490,868)	229,677
(Reversal)/Impairment of loans receivable	-	(687,227)	252,699
Interest capitalised	-	-	(479,410)
(Gain)/Loss on sale of investments	-	(3,753,324)	(9,067,140)
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	(10,542)	(317,883)	268,985
Change in trade and other payables	(35,294)	(18,741)	(3,725)
Change in earnout provision	(113,618)	(5,432,151)	(9,168,628)
<b>Net cash from operating activities</b>	<b>(228,841)</b>	<b>(7,177,081)</b>	<b>(11,305,862)</b>



## 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 2017 comprise the Company and 8 Investment Companies (30 June 2016:9) (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 2016.

The interim financial statements were approved by the Directors on 18 September 2017.

#### *(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 2016.

#### *(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 judgments, 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 8 (2016:9) 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

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### Notes to the consolidated interim financial statements

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

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

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 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 International Private Equity and Venture Capital (IPEV) valuation guidelines.

## Financial Information

### Notes to the consolidated interim financial statements

#### 2. Loans receivable

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
New Zealand King Salmon Investments Limited <sup>1</sup>	-	8,298,545	-
Stratex Group Limited <sup>2</sup>	-	787,174	1
Coda Therapeutics <sup>3</sup>	5,469	5,469	5,469
Vital Food Processors Limited <sup>3</sup>	25,224	25,224	25,224
	<u>30,693</u>	<u>9,116,412</u>	<u>30,694</u>

<sup>1</sup> Loans through the investments by Pohutukawa Private Equity Limited & BioPacificVentures which were converted to equity in September 2016.

<sup>2</sup> During the 2017 year, a further \$19,404 of interest was recognised and capitalised to the loan to Stratex Group Limited (investment held by Pohutukawa Zeta Investments Limited). The loan has been impaired with \$19,405 of impairment being recognised in profit or loss.

<sup>3</sup> Loans through the investments by BioPacificVentures.

#### *Represented by*

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Non-current assets	-	8,298,545	-
Current assets	30,693	817,867	30,694
	<u>30,693</u>	<u>9,116,412</u>	<u>30,694</u>



## Financial Information

### Notes to the consolidated interim financial statements

#### 3. Investments

##### *Non-current 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 currently 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 following details the unlisted equity securities held at 30 June 2017 at their cost price:

Entity name		Initial Acquisition date	Voting interest	Unaudited Jun 2017 Cost of acquisition	Unaudited Jun 2016 Cost of acquisition	Audited Dec 2016 Cost of acquisition
BioPacificVentures	Private equity vehicle	Nov 2005	n/a	896,402	1,117,719	896,402
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812	3,598,812	3,598,812
NZ King Salmon Investments Limited	Food	Sep 2008	n/a	-	2,721,682	-
Fishpond Limited	Online retail	Oct 2009	4.5%	772,348	772,348	772,348
				<u>5,267,562</u>	<u>8,210,561</u>	<u>5,267,562</u>



## Financial Information

### Notes to the consolidated interim financial statements

#### 3. 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 2017	Level 1	Level 2	Level 3	Total
Investments	-	-	464,041	464,041

30 June 2016	Level 1	Level 2	Level 3	Total
Investments	-	-	3,769,960	3,769,960

31 December 2016	Level 1	Level 2	Level 3	Total
Investments	-	-	764,181	764,181

There have been no transfers between levels during the period.



## Financial Information

### Notes to the consolidated interim financial statements

#### 3. Investments (continued)

##### a) Fair value hierarchy (continued)

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	Unaudited Jun 2017	Audited Dec 2016
Opening balance	764,181	32,226,828
Total gains or (losses):		
Change in fair value – equity securities	(300,140)	(229,677)
Divestments	-	(31,232,970)
Closing balance	464,041	764,181

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

Investments	Unaudited Jun 2017	Audited Dec 2016
Total gains/(losses) included in profit or loss for the period	(300,140)	8,837,463
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	(300,140)	(229,677)

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 3(c) for sensitivity analysis with regards to the earnings multiple or adjustment factor.

##### 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 judgement after considering market liquidity conditions and company-specific factors such as the developmental stage of the portfolio company, if any.



## Financial Information

### Notes to the consolidated interim financial statements

#### 3. Investments (continued)

##### c) Sensitivity analysis

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by \$17,592. A movement in the adjustment factor of 5% changes the value of the investments by \$27,487. A movement in the maintainable earnings of 5% changes the value of the investments by \$21,990.

#### 4. Cash and cash equivalents

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Call deposits	502,287	6,064,484	744,317
Short-term deposits	963,132	936,767	949,943
	<u>1,465,419</u>	<u>7,001,251</u>	<u>1,694,260</u>

The majority of call deposits are held on short-term deposit with 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 2017 was 2.20% (June 2016: 2.60%).

Short-term deposits are held with ANZ Bank New Zealand Limited for periods of up to 90 days and have interest rates ranging from 2.71% to 2.79% (June 2016: 2.83% to 2.88%).

#### 5. Trade and other receivables

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Goods and services tax receivable	-	-	5,929
Income tax receivable	15	15	15
Prepayments	2,536	2,536	10,143
Interest receivable	4,245	401,922	4,324
Proceeds from sale of investment held in escrow	-	779,894	-
Management fee paid in advance	48,367	-	-
Other receivables	26,313	235,975	50,523
	<u>81,476</u>	<u>1,420,342</u>	<u>70,934</u>

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## Financial Information

### Notes to the consolidated interim financial statements

#### 6. Earnout Provision

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Opening provision	503,615	9,672,243	9,672,243
Change in provision due to change in fair value of investments	(113,618)	1,340,910	1,646,683
Distribution of earnout during the period	-	(6,773,061)	(10,815,311)
Closing Earnout Provision	389,997	4,240,092	503,615

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 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 2017 the estimated earnout is calculated at \$389,997, however this calculation is based on unrealised portfolio company fair value valuations of \$464,041 and loans receivable of \$30,693 being fully recovered. Movements in the provision due to changes in the fair value of investments are recognised in profit or loss.

#### 7. Share Capital

No distributions were declared during the year by companies with the Group (30 June 2016: \$21,200,000, \$0.40 per share). 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

##### *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 Management 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 Management Limited and Craigs Investment Partners Limited.

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



## Financial Information

### Notes to the consolidated interim financial statements

#### 8. Related parties (continued)

##### 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 \$145,093 (30 June 2016: \$328,369). An amount of \$48,367 has been paid in advance as at 30 June 2017 (30 June 2016: \$Nil).
- 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 2017 the balance held was \$502,206 (30 June 2016: \$6,064,484).
- Pohutukawa I Investment Holdings Limited Partnership received no earnout distribution (30 June 2016: \$6,773,061) during the period.

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 Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Directors fees (total remuneration)	31,250	50,000	100,000

The balance owing to directors at 30 June 2017 is \$6,250 (30 June 2016: \$25,000).

On 1 April 2017 Maurice Prendergast and Michael Caird resigned as directors.

#### 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 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 6 to 18 do not:

- i. Present fairly in all material respects the Group's financial position as at 30 June 2017 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. Comply with NZ IAS 34 Interim Financial Reporting.

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

The consolidated statement of financial position as at 30 June 2017;

The consolidated 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 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**

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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 are 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.

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### **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  
18 September 2017



## Directory

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### BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY

John McDonald  
Neil Craig

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

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### OFFICES OF POHUTUKAWA

Pohutukawa Private Equity Limited  
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### INVESTMENT MANAGER

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### AUDITORS

KPMG  
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### SHARE REGISTRY

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