



14 September 2018

Dear Shareholder

Pohutukawa Private Equity Limited Interim Financial Statements 30 June 2018

We are pleased to provide Pohutukawa Private Equity shareholders with a copy of the interim financial statements (unaudited) for the period ended 30 June 2018.

We advised in the annual report that in order to keep the Fund running costs to a minimum we would be providing interim financial statements but not interim reports.

We will provide investors with any update on portfolio realisations as they occur. There remains a focus on realising the remaining portfolio but at this stage there is no further progress to report. The current estimated net asset value is 0.9 cents per share.

If you have any queries regarding your investment in Pohutukawa, please discuss with your Investment Adviser or you may call the Manager, Peter Lalor on 07 927 7927, or email enquiries@pohutukawafund.co.nz

Yours faithfully

POHUTUKAWA PRIVATE EQUITY LIMITED

JOHN MCDONALD
Chairman

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Consolidated interim statement of comprehensive income

For the six months ended 30 June 2018

	Unaudited	Unaudited	Audited
	6 months	6 months	12 months
Note	Jun 2018	Jun 2017	Dec 2017
Interest Income	1,402	39,004	52,015
Dividend Income	10,751	8,023	24,069
Change in fair value of investments – equity securities	3 (45,000)	(300,140)	(300,140)
Impairment of loans and receivables	-	(19,405)	(19,405)
Reversal of impairment of loans and receivables	-	-	-
Gain/(loss) on realisation of investments	-	-	-
Other operating income - fees	-	23,532	23,532
Administrative expenses	(64,034)	(234,159)	(382,181)
Movement in earnout provision	6 15,785	113,618	120,605
Operating profit/(loss) before tax	(81,096)	(369,527)	(481,505)
Tax expense	-	-	-
Profit/(loss) after tax	(81,096)	(369,527)	(481,505)
Attributable to:			
Equity holders of the parent	(44,705)	(74,076)	(174,424)
Equity holders of the investment companies	1 c (36,391)	(295,451)	(307,081)
Profit/(loss) for the period	(81,096)	(369,527)	(481,505)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period attributable to the equity holders of stapled securities	(81,096)	(369,527)	(481,505)

Consolidated interim statement of changes in equity

For the six months ended 30 June 2018

	Note	Attributable to equity holders of the parent			Attributable to equity holders of investment companies	Total equity
		Share capital	Retained losses	Total		
Unaudited						
Balance at 1 January 2018		15,565,274	(11,851,871)	3,713,403	(3,169,470)	543,933
Total comprehensive income		-	(44,705)	(44,705)	(36,391)	(81,096)
Balance at 30 June 2018		<u>15,565,274</u>	<u>(11,896,576)</u>	<u>3,668,698</u>	<u>(3,205,861)</u>	<u>462,837</u>
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)
Balance at 30 June 2017		<u>16,482,605</u>	<u>(11,751,523)</u>	<u>4,731,082</u>	<u>(3,093,280)</u>	<u>1,637,802</u>
Audited						
Balance at 1 January 2017		16,482,605	(11,677,447)	4,805,158	(2,797,829)	2,007,329
Total comprehensive income		-	(174,424)	(174,424)	(307,081)	(481,505)
Redemption of share capital		(917,331)	-	(917,331)	-	(917,331)
Distributions to equity holders		-	-	-	(64,560)	(64,560)
Balance at 31 December 2017		<u>15,565,274</u>	<u>(11,851,871)</u>	<u>3,713,403</u>	<u>(3,169,470)</u>	<u>543,933</u>

Consolidated interim statement of financial position

As at 30 June 2018

	Note	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Assets				
Investments – equity securities	3	419,041	464,041	464,041
Total non-current assets		419,041	464,041	464,041
Trade and other receivables	5	27,877	81,476	41,696
Loans receivable	2	30,693	30,693	30,693
Cash and cash equivalents	4	145,476	1,465,419	984,289
Total current assets		204,046	1,577,588	1,056,678
Total assets		623,087	2,041,629	1,520,719
Equity				
Issued capital		15,565,274	16,482,605	15,565,274
Retained losses		(11,896,576)	(11,751,523)	(11,851,871)
Total equity attributable to equity holders of the parent		3,668,698	4,731,082	3,713,403
Equity attributable to equity holders of investment companies	1 c	(3,205,861)	(3,093,280)	(3,169,470)
Total equity attributable to equity holders of stapled securities		462,837	1,637,802	543,933
Liabilities				
Trade and other payables		38,500	13,830	20,585
Bank overdraft		-	-	818,666
Total current liabilities		38,500	13,830	839,251
Earnout provision	6	121,750	389,997	137,535
Total non-current liabilities		121,750	389,997	137,535
Total liabilities		160,250	403,827	976,786
Total equity and liabilities		623,087	2,041,629	1,520,719

For and on behalf of the Board



Director

10 September 2018



Director

10 September 2018

Consolidated interim statement of cash flows

For the six months ended 30 June 2018

	Unaudited	Unaudited	Audited
Note	Jun 2018	Jun 2017	Dec 2017
Cash flows from operating activities			
Cash receipts from fees	-	23,532	23,532
Interest received	8,380	19,678	36,934
Dividends received	10,751	8,023	24,069
Cash paid to suppliers	(37,451)	(280,074)	(373,981)
Interest paid	(1,827)	-	(11,825)
Distribution of earnout	-	-	(245,475)
	6		
Net cash from operating activities	(20,147)	(228,841)	(546,746)
Cash flows from investing activities			
Proceeds from sale of investments	-	-	-
Loans advanced to portfolio companies	-	-	-
Net cash from investing activities	-	-	-
Cash flows from financing activities			
Redemption of preference shares	-	-	(917,331)
Distributions to equity holders	-	-	(64,560)
Net cash from financing activities	-	-	(981,891)
Net movement in cash and cash equivalents	(20,147)	(228,841)	(1,528,637)
Cash and cash equivalents at 1 January	165,623	1,694,260	1,694,260
Cash and cash equivalents at end of period	4	1,465,419	165,623

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

	Unaudited	Unaudited	Audited
	Jun 2018	Jun 2017	Dec 2017
Profit /(Loss) for the period	(81,096)	(369,527)	(481,505)
<i>Adjustments for:</i>			
Changes in fair value of investments - equity securities	45,001	300,140	300,140
(Reversal)/Impairment of loans receivable	-	-	19,405
Interest capitalised	-	-	(19,404)
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	13,819	(10,542)	29,238
Change in trade and other payables	17,915	(35,294)	(28,540)
Change in earnout provision	(15,785)	(113,618)	(366,080)
Net cash from operating activities	(20,146)	(228,841)	(546,746)

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 2018 comprise the Company and 8 Investment Companies (30 June 2017:8) (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 10 September 2018.

(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 2017.

(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 (2017:8) 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.

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.

2. Loans receivable

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Coda Therapeutics ¹	5,469	5,469	5,469
Vital Food Processors Limited ¹	25,224	25,224	25,224
	<u>30,693</u>	<u>30,693</u>	<u>30,693</u>

¹ Loans through the investments by BioPacificVentures.

Represented by

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Non-current assets	-	-	-
Current assets	30,693	30,693	30,693
	<u>30,693</u>	<u>30,693</u>	<u>30,693</u>

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 2018 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting interest	Unaudited Jun 2018 Cost of acquisition	Unaudited Jun 2017 Cost of acquisition	Audited Dec 2017 Cost of acquisition
BioPacificVentures	Private equity vehicle	Nov 2005	n/a	896,402	896,402	896,402
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812	3,598,812	3,598,812
Fishpond Limited	Online retail	Oct 2009	4.5%	772,348	772,348	772,348
				5,267,562	5,267,562	5,267,562

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 2018	Level 1	Level 2	Level 3	Total
Investments	-	-	419,041	419,041
30 June 2017	Level 1	Level 2	Level 3	Total
Investments	-	-	464,041	464,041
31 December 2017	Level 1	Level 2	Level 3	Total
Investments	-	-	464,041	464,041

There have been no transfers between levels during the period.

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 2018	Audited Dec 2017
Opening balance	464,041	764,181
Total gains or (losses):		
Change in fair value – equity securities	(45,000)	(300,140)
Divestments	-	-
Closing balance	419,041	464,041

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 2018	Audited Dec 2017
Total gains/(losses) included in profit or loss for the period	(45,000)	(300,140)
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	(45,000)	(300,140)

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.

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 2018	Unaudited Jun 2017	Audited Dec 2017
Call deposits	145,476	502,287	8,549
Short-term deposits	-	963,132	975,740
Bank overdraft	-	-	(818,666)
	145,476	1,465,419	165,623

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 2018 was 2.25% (June 2017: 2.20%).

5. Trade and other receivables

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Goods and services tax receivable	370	-	1,099
Income tax receivable	15	15	15
Prepayments	2,037	2,536	8,148
Interest receivable	-	4,245	-
Management fee paid in advance	-	48,367	-
Other receivables	25,455	26,313	32,434
	27,877	81,476	41,696

Notes to the consolidated interim financial statements

6. Earnout Provision

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Opening provision	137,535	503,615	503,615
Change in provision due to change in fair value of investments	(15,785)	(113,618)	(120,605)
Distribution of earnout during the period	-	-	(245,475)
Closing Earnout Provision	<u>121,750</u>	<u>389,997</u>	<u>137,535</u>

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 2018 the estimated earnout is calculated at \$121,750, however this calculation is based on unrealised portfolio company fair value valuations of \$419,041 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 2017: \$Nil). All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to \$0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

8. Related parties

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.

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 accrued to Pohutukawa Management Limited totalled \$38,500 (30 June 2017: \$145,093). An amount of \$38,500 has been deferred as at 30 June 2018 pending successful realisation of assets of the fund (30 June 2017: \$48,367 was paid in advance).
- 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 2018 the balance held was \$140,234 (30 June 2017: \$502,206).

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 2018	Unaudited Jun 2017	Audited Dec 2017
Directors fees (total remuneration)	-	31,250	43,750

The directors approved the cancellation of Directors fees from 1 January 2018 going forward. The balance owing to directors at 30 June 2018 is \$Nil (30 June 2017: \$6,250).

9. Subsequent events

There were no material subsequent events for the Group.