

## ANNUAL REPORT

For the year ended 31 December 2016



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## Report to Shareholders

April 2017

### Dear Shareholder

I am pleased to present Pohutukawa's 2016 Annual Report. The report includes the financial statements for the financial year ended 31 December 2016 with commentary on significant realisations within the portfolio and performances of our portfolio companies and the remaining company prospects for 2017.

### Portfolio Overview

The Pohutukawa Fund is now in its thirteenth year. As at 31 December Pohutukawa had realised total investment proceeds of \$96.3 million (from a total of \$53 million subscribed) and you have received back by way of capital and imputed dividend returns an amount of \$1.82 gross per share from your original \$1.00 per share investment. This represents a net internal return rate after earn out of 12.5% to 31 December 2016.

### Realisations during 2016

New Zealand Pharmaceuticals (NZP) was realised on 31 March 2016, which resulted in an initial distribution to shareholders of \$21.2 million or 40 cents per share (cps) on 13 April 2016, along with a further distribution of \$5 million or 9.5 cps on 29 July 2016.

Following New Zealand King Salmon Investments Limited (NZKS) completing a dual listing on NZX and ASX, Pohutukawa realised all of its shareholding in NZKS on 19 October 2016. This resulted in a further capital distribution of \$11.1 million or 21.0 cps made to shareholders on 17 November 2016.

Investors received capital returns totalling \$37.4 million during the financial period.

We congratulate our investment manager Direct Capital on these outstanding outcomes, the culmination of many years of supporting these companies to achieve their growth objectives.

Following the realisation of NZP and NZKS, the remaining portfolio comprises investments in Stratex and Fishpond along with a small residual investment through BioPacificVentures (BPV).

At 31 December the portfolio value was \$0.8 million, which includes the Stratex Group investment being written down. With only two direct investments remaining in the portfolio, any subsequent shareholder distributions will not be significant.

We also hold approximately \$1.7m of cash as at 31 December to fund any follow-on investment, working capital and to provide for wind-up costs of the fund. We are reviewing whether we can release some of this cash to shareholders (as and when it is no longer required).

### Distributions to Shareholders

Pohutukawa capital distributions of \$37.4 million (70.5 cps) were paid to shareholders during the financial period.

Net asset backing at 31 December 2016 (after provision for earn out) was 4 cps.

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

**Table 1 - Summary of Investor Returns**

Gross Return to 31 December 2016	
Original investment	\$1.00
<b>Gross Return to Investors</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
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 31 December 2016*	0.04
<b>Estimated Gross Return*</b>	<b>\$1.86</b>

\* Includes provision for earn out



## Report to Shareholders

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### *Current Portfolio*

New Zealand Pharmaceuticals produced a strong performance up until its realisation in March 2016.

New Zealand King Salmon performed well up to its realisation in October 2016, with increasing export sale volumes and earnings due to a strong global salmon market.

As well as excellent investment returns for the Pohutukawa direct investments in NZP and NZKS, BioPacificVentures holdings in the same companies also allowed for the return of all of its Contributed Capital.

Stratex has recently been successful in winning some large revenue generating contracts. Unfortunately the main challenge for Stratex is the time it has taken to turn the contract successes into suitable earnings.

Fishpond generated revenue during the year ahead of expectations. While revenue growth has been encouraging, margin performance has been far more challenging, although the business remains profitable.

### *Follow-on Investments*

Direct Capital and Pohutukawa made a small follow-on investment into Stratex totalling \$250,000 to help with funding the business for the new contracts being secured. In aggregate, Pohutukawa has advanced loans of \$885,571 to Stratex.

The Manager is currently focussed on providing a pathway to maximising value for shareholders for the remaining two portfolio companies.

### *Portfolio Position*

Following the realisation of the two largest investments in NZP and NZKS, the total value of the portfolio company investments at the end of the financial period to 31 December 2016 was \$0.8 million.

### **Portfolio Company Investment Valuations**

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The Manager revalues the portfolio company investments each quarter using the International Private Equity & Venture Capital valuation guidelines.

At 31 December 2016 the investments were valued at \$0.8 million. This value includes shareholder loans that the Pohutukawa group has made to portfolio companies. The company revaluations are based on the respective company financial performances to 31 December 2016. In the financial statements the value of the Stratex loan has been impaired due to the length of time it is taking to fully commercialise the new contracts.

With the Fund now in its maturity there are a variety of alternatives to maximising value above current book value, and the Manager continues to actively assess these options.

## Report to Shareholders

### Annual Financial Statements 31 December 2016

Our financial statements for the year ended 31 December 2016, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December 2016 Pohutukawa had 53 million stapled securities on issue, fully paid to \$1.

At balance date shareholders' funds were \$2.0 million, equivalent to a net asset backing of 4.0 cps. The Fund is in a strong financial position with cash representing 66% of its assets.

Main assets comprised:

- Investments & Loans to Portfolio Companies\* \$0.8 million
- Cash \$1.7 million

\*Loans to portfolio companies are direct shareholder loans made by Pohutukawa to these companies on the same basis as other shareholders in these investee companies.

Dividend income of \$19,255 was received. Interest income of \$559,715 was also received from our bank deposits and recognised from shareholder loans. There was other income of \$97,096 from a BPV placement fee.

The investment portfolio was re-valued under the fair value method at 31 December 2016. There was a negative movement in fair value of \$229,677; a gain of \$9 million was recognised on realisation of investments in NZP and NZKS; there was a reversal of the NZKS loan impairment for \$687,227 which was capitalised to equity, and the Stratex loan of \$939,926 was impaired.

Administrative expenses were \$952,467 (2015: \$1.02 million). The movement in earnout provision was \$1.6 million compared to a movement of \$9.7 million in the prior year. Earn out of \$10.8 million was distributed during the financial period. The profit for the financial year was \$6.6 million, compared to \$5.5 million recorded in 2015.

Capital distributions of \$37.4 million were paid to shareholders for the financial period.

Table 2 shows the Pohutukawa Financial Performance Summary for the year ended 31 December 2016.

**Table 2 - Pohutukawa Financial Performance Summary**

<b>Pohutukawa Financial Performance Summary</b>			
<b>For the year ended 31 December 2016</b>			
		<b>2016</b>	<b>2015</b>
		<b>\$000</b>	<b>\$000</b>
<b>Operating Results</b>			
Interest income		560	213
Dividend income		19	89
Other income		97	106
Gain/(Loss) on sale of investments		9,067	-
Change in fair value of investments		(229)	14,335
Loan impairment/Reversal of loan impairment		(253)	1,437
Movement in earnout provision		(1,647)	(9,672)
Administrative expenses		(952)	(1,024)
Profit/(Loss) before tax		6,662	5,484
Tax expense		-	-
Profit/(Loss) after tax		6,662	5,484
<b>Share performance</b>			
Stapled Securities on issue	\$1.00	53,000,000	53,000,000
*Estimated Net Asset backing-cents per share		\$0.04	\$0.62

\* Includes provision for earn out.

### The Manager

One of the roles of the Pohutukawa Board is to review the Manager's performance. This review was undertaken for the 2016 financial period. The Board considered the services and activities of the Manager including: all aspects of the investment management process and portfolio management; the fund's administration; investor communications; statutory reporting and governance support for the Board. The Board believes the Manager is performing to the expected standards in all respects.

### Follow-on Investments in Portfolio Companies

Pohutukawa shares are fully paid to \$1.00, so some of our remaining cash surplus plus any retained capital from company realisations may be applied to fund follow-on portfolio company investments. The directors are also reviewing whether we can release some of this cash surplus to shareholders.

## Report to Shareholders

The portfolio companies have growth strategies in place. Pohutukawa is in a strong financial position to fund such growth.

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

### *Secondary Market*

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

As at 31 December 2016 the last sale price for Pohutukawa I shares was 5 cents while the net asset backing was 4 cps, after allowing for earn out.

### *Retiring Directors*

To assist in reducing ongoing costs against the remaining small portfolio, two directors Maurice Prendergast and Mike Caird resigned after the year end and the remaining two directors agree to reduce their ongoing director fees by 50 per cent.

We thank both Maurice and Mike for their considerable contributions to the success of Pohutukawa.

### **Annual Shareholders Meeting**

The details for the Annual Shareholders Meeting for Pohutukawa Private Equity are:

- **Date:** Tuesday, 23 May 2017
- **Time:** 2.30pm
- **Place:** Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland
- **RSVP:** By 12 May 2017  
Contact Peter Lalor on 07 927 7927 or [enquiries@pohutukawafund.co.nz](mailto:enquiries@pohutukawafund.co.nz)

We look forward to seeing you at this meeting.

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 very pleased to report on the very successful portfolio company realisations for the year ended 31 December 2016.

The two main highlights of the year included:

On 31 March 2016 Pohutukawa's shareholding in New Zealand Pharmaceuticals was realised, which provided an initial shareholder return of \$21.2 million or 40 cents per share (cps) on 13 April 2016. There was a further distribution of \$5 million or 9.5 cps on 29 July 2016.

We are proud to have been involved with NZP for over ten years, through which time the company significantly expanded its factory, whilst successfully growing international revenues. During our investment the company generated significant imputed dividends – a key objective from the outset of our investment.

New Zealand King Salmon Investments Ltd listed on the NZX and ASX on 19 October 2016. The realisation of all our shareholding enabled a distribution of \$11.1 million or 21 cps to shareholders on 17 November 2016.

We were involved with NZKS from our initial investment in 2008. A significant milestone for NZKS was achieving three new salmon farm licences in the Marlborough Sounds, following a protracted and expensive appeal process. From a strategic perspective the gaining of these additional farms was critical to NZKS's growth aspirations, enabling the company to significantly increase production as each new farm has come on stream.

With the realisation of two of our larger investments across the portfolio, Pohutukawa was able to distribute 70.5 cents gross per share. With the \$1.11 of gross returns distributed prior to this year, the Fund has now distributed \$1.82 per share. With the Net Asset Value at year end below 4 cents per share, any subsequent distributions are unlikely to be significant.

BioPacificVentures also invested in both NZP and NZKS and the settlements provided BPV with a positive return on that funds investments. NZP and NZKS were BPV's most successful investments.

The Pohutukawa distributions reflected the contribution from the BPV realised investments.

With two remaining modest investments we expect BPV will be wound up over the next 12 months.

### *Stratex Group*

As a result of the factory print expansion, partly funded by Pohutukawa investors, Stratex Group successfully tendered for new print contracts. The challenge has been commercialising the new contracts which has taken longer than originally planned.

### *Fishpond*

Fishpond has improved its financial performance, and is performing to expectations within a fast moving online landscape.

The Manager continues to encourage the remaining two portfolio companies to focus on initiatives which may crystallise value. Opportunities to realise appropriate value will be reviewed where circumstances present.

We continue to record our appreciation towards our past and present portfolio company management teams.

Individual performance and prospects are highlighted in the portfolio company summaries that follow.



## Manager’s Report on Portfolio Companies

### STRATEX GROUP

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



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
May 2007	Manufacturing	MBO	\$4,539	32.8*

\* Total shareholding managed by Direct Capital 83.2%

#### Background

Stratex is a manufacturer of complex base materials used in the paper, food and industrial packaging markets of NZ and Australia. Stratex extrudes and laminates polymer (plastic) and foil on to paper and film substrates, producing products such as foil and non-foil food bags, food sachets, lidding materials, specialty cheese wraps, butter wrap, insulation materials, and mill wrap.

#### Performance

In 2013 Stratex embarked on a three year investment programme to reposition the company to provide direct supply to FMCG brand customers in the food sector. The company has been successful in positioning itself as a credible regional supplier, with a number of new contracts being secured with multi-national brands that provide an opportunity to achieve continued revenue growth into the FY17 and FY18 years. The critical challenge for the company is to ensure satisfactory operating margins are achieved from these contracts. The company has yet to achieve satisfactory results and financial performance continues to remain below expectations of stakeholders.

#### Outlook

While the company has achieved top line revenue growth, converting these contracts into profitable production remains challenging for the business. Manufacturing performance has been disappointing and this continues to be reflected in a financial performance that is below expectation. While management have a number of initiatives underway to improve operational performance, the Manager remains concerned with the continued delay in achieving satisfactory results.



## Manager’s Report on Portfolio Companies

### FISHPOND

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



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
October 2009	Online retail	Expansion	\$772 - equity	4.5*

\* Total shareholding managed by Direct Capital 12.0%

#### Background

Fishpond is a leading e-commerce and fulfilment business that lists, sells and ships millions of products through its own retail channels (including [www.fishpond.co.nz](http://www.fishpond.co.nz) and [www.fishpond.com.au](http://www.fishpond.com.au)) and via its WorldFront platform, which provides access to the largest marketplaces around the world.

#### Performance

Revenue growth continued to accelerate throughout the 2016 year, particularly in the last quarter as sales generated via 3rd party marketplaces accelerated. At an operational level the business continues to make good progress in establishing new channels and service streams to other ecommerce participants.

#### Outlook

Fishpond is positioned to continue its growth trajectory by leveraging its proprietary WorldFront e-commerce and fulfilment platform.





## Manager's Report on Portfolio Companies

### BIOPACIFICVENTURES

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



*Table 3 - BioPacificVentures Investments to 31 December 2016, at cost:*

Schedule of Current Investments at Cost to 31 December 2016	Date of Original Investment	Industry	Stage	Investment Cost (NZ\$000)
BioPacificVentures Investments Vital Food Processors Limited CoDa Therapeutics Inc	Feb-06 Sep-08	Consumer Products Pharmaceutical	Early Start up	
				\$ 896

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

There have been eleven investments, and with realisations or write-offs this has reduced to two remaining investments: CoDa Therapeutics (drug development for healing chronic wounds); and Vital Foods (kiwi-fruit based digestive health products). In each case, BPV has a minority shareholding interest.

While both companies continue to pursue initiatives to realise value within the next twelve months, neither CoDa nor Vital Foods has performed to investment expectation.

## Directors' Report

For the year ended 31 December 2016

### Directors holding office during the year and their remuneration

Directors' remuneration paid or due and payable to Directors during the year was as follows:

	Director Fees \$	Date of appointment
J McDonald**	35,000	13 May 2008
M Prendergast*	35,000	3 March 2009
N Craig**	15,000	16 August 2004
M Caird*	15,000	27 September 2013

\*Directors Mike Caird and Maurice Prendergast tendered their resignations from Pohutukawa Private Equity Ltd effective 1 April 2017.

\*\*From 1 April 2017 the remaining directors total remuneration will reduce to \$25,000 per annum.

### Entries recorded in the interests register

The entries shown in the table below were recorded in the interest register of the company during the year.

The directors of Pohutukawa also have co-investment rights in the portfolio investments that are undertaken by Pohutukawa.

### Directors' shareholdings (including relevant interests) and dealings in Pohutukawa & Pohutukawa co-investments at 31 December 2016

Pohutukawa Director Investment Disclosure (Directors holding office at 31 December 2016)				
Investment Holding	J McDonald	M Prendergast	N Craig	M Caird
Including Relevant Interests				
	No. Securities	No. Securities	No. Securities	No. Securities
Pohutukawa Private Equity	100,000	-	239,000	24,000
Stratex Group Equity	-	-	18,363	22,402
Stratex Group Debt	-	-	4,527	5,517
Fishpond Equity	282	282	176	62



Director

29 March 2017

Date



Director

29 March 2017

Date

## Statement of comprehensive income

For the year ended 31 December 2016

	<i>Note</i>	2016	2015
Interest income		559,715	213,523
Dividend income		19,255	88,500
Change in fair value of investments	7(a)	(229,677)	14,335,115
Gain on realisation of investments	7(d)	9,067,140	-
Other operating income		97,096	106,000
Reversal of impairment of loans to portfolio companies	8	687,227	1,544,233
Impairment of loans to portfolio companies	8	(939,926)	(106,958)
Administrative expenses	5	(952,467)	(1,023,839)
Movement in earnout provision	14	(1,646,683)	(9,672,243)
<b>Operating profit before tax</b>		<b>6,661,680</b>	<b>5,484,331</b>
Income tax expense	6	-	-
<b>Profit for the year</b>		<b>6,661,680</b>	<b>5,484,331</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>6,661,680</b>	<b>5,484,331</b>
<b>Attributable to:</b>			
Equity holders of the parent		184,062	(9,626,061)
Equity holders of investment companies	3a(iv)	6,477,618	15,110,392
<b>Profit and total comprehensive income for the year attributable to the equity holders of stapled securities</b>		<b>6,661,680</b>	<b>5,484,331</b>



## Statement of changes in equity

For the year ended 31 December 2016

		Attributable to equity holders of the parent			Attributable to equity holders of investment companies	Total equity
	Note	Share capital	Retained losses	Total		
Balance at 1 January 2016		35,440,397	(11,861,509)	23,578,888	9,131,762	32,710,650
Total comprehensive income for the year		-	184,062	184,062	6,477,618	6,661,680
Distributions to equity holders	12	-	-	-	(18,407,209)	(18,407,209)
Redemption of preference shares		(18,957,792)	-	(18,957,792)	-	(18,957,792)
Balance at 31 December 2016		16,482,605	(11,677,447)	4,805,158	(2,797,829)	2,007,329
Balance at 1 January 2015		35,835,787	(2,235,448)	33,600,339	(5,308,068)	28,292,271
Total comprehensive income for the year		-	(9,626,061)	(9,626,061)	15,110,392	5,484,331
Distributions to equity holders	12	-	-	-	(670,562)	(670,562)
Redemption of preference shares		(395,390)	-	(395,390)	-	(395,390)
Balance at 31 December 2015		35,440,397	(11,861,509)	23,578,888	9,131,762	32,710,650

## Statement of financial position

For the year ended 31 December 2016

	<i>Note</i>	2016	2015
<b>Assets</b>			
Loans to portfolio companies	8	-	7,611,317
Investments – equity securities	7(c)	764,181	32,226,828
<b>Total non-current assets</b>		<u>764,181</u>	<u>39,838,145</u>
Other receivables	9	70,934	322,565
Loans to portfolio companies	8	30,694	817,867
Cash and cash equivalents	11	1,694,260	1,457,166
<b>Total current assets</b>		<u>1,795,888</u>	<u>2,597,598</u>
<b>Total assets</b>		<u>2,560,069</u>	<u>42,435,743</u>
<b>Equity</b>			
Issued capital	12	16,482,605	35,440,397
Retained losses		(11,677,447)	(11,861,509)
<b>Total equity attributable to equity holders of the parent</b>		<u>4,805,158</u>	<u>23,578,888</u>
Equity attributable to equity holders of investment companies	3a(iv)	(2,797,829)	9,131,762
<b>Total equity attributable to equity holders of stapled securities</b>		<u>2,007,329</u>	<u>32,710,650</u>
<b>Liabilities</b>			
Trade and other payables	13	49,125	52,850
<b>Total current liabilities</b>		<u>49,125</u>	<u>52,850</u>
Earnout provision	14	503,615	9,672,243
<b>Total non-current liabilities</b>		<u>503,615</u>	<u>9,672,243</u>
<b>Total liabilities</b>		<u>552,740</u>	<u>9,725,093</u>
<b>Total equity and liabilities</b>		<u>2,560,069</u>	<u>42,435,743</u>

For and on behalf of the Board



Director

29 March 2017

Date



Director

29 March 2017

Date



## Statement of cash flows

For the year ended 31 December 2016

	<i>Note</i>	2016	2015
<b>Cash flows from/(to) operating activities</b>			
Management fees		97,096	106,000
Interest received		282,246	70,841
Dividends received		67,394	40,365
Cash paid to suppliers		(937,287)	(1,039,091)
Distribution of earnout	14	(10,815,311)	-
<b>Net cash from/(to) operating activities</b>	15	<u>(11,305,862)</u>	<u>(821,885)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		49,006,354	-
Loans repaid by portfolio companies		-	1,816,608
Loans advanced to portfolio companies		(98,397)	(393,587)
<b>Net cash from investing activities</b>		<u>48,907,957</u>	<u>1,423,021</u>
<b>Cash flows from/(to) financing activities</b>			
Repayment of preference shares		(18,957,792)	(395,390)
Distributions to equity holders		(18,407,209)	(670,562)
<b>Net cash from/(to) financing activities</b>		<u>(37,365,001)</u>	<u>(1,065,952)</u>
Net movement in cash and cash equivalents		237,094	(464,816)
Cash and cash equivalents at 1 January		1,457,166	1,921,982
<b>Cash and cash equivalents at 31 December</b>	11	<u>1,694,260</u>	<u>1,457,166</u>



## Notes to the consolidated financial statements

### 1. Reporting entity

Pohutukawa Private Equity Limited (the “Company”) is a company incorporated and domiciled in New Zealand. Pohutukawa Private Equity Limited and the 9 (2015: 9) Investment Companies, refer Note 20, are registered under the *Companies Act 1993* and are issuers and reporting entities for the purposes of the *Financial Reporting Act 2013*. The consolidated financial statements of the Group for the year ended 31 December 2016 comprise the Company and 9 (2015: 9) Investment Companies (together referred to as the “Group”).

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

The financial statements were approved by the Directors on 29 March 2017.

### 2. Basis of preparation

#### (a) Statement of compliance

The company is a FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. These financial statements comply with those Acts and have been prepared in accordance with the New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”) as appropriate for profit oriented entities. The financial statements also comply with the Companies Act 1993.

#### (b) Basis of measurement

The financial statements are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

#### (c) Functional and presentation currency

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

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

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based

on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

#### (a) Basis of consolidation

##### (i) Stapled securities

For every ordinary share held in Pohutukawa Private Equity Limited, investors also hold 100 preference shares in Pohutukawa Private Equity Limited as well as one preference share in each of the 9 (2015: 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 9 (2015: 9) companies combining under the stapling arrangement are designated as the Investment Companies, refer Note 20, which invest in Portfolio Companies, refer Note 7.



## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (i) Stapled securities (continued)

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

#### (ii) Associates

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

#### (iii) Transactions eliminated on consolidation

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

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

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

#### (b) Investments in equity securities

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

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

date basis, being the date on which the Group commits to purchase or sell the asset.

#### (c) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy 3(f)).

#### (d) Loans receivable

Loans receivable are initially recognised at fair value plus any directly attributable transaction costs (if any). Subsequent to initial recognition they are stated at amortised cost less impairment losses (see accounting policy 3(f)).

#### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash excludes short-term deposits that are not used as part of the Group's day-to-day cash management.

#### (f) Impairment

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

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

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

#### (g) Share capital

##### (i) Preference share capital

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

##### (ii) Repurchase of share capital

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



## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (g) Share capital (continued)

##### (iii) Dividends

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

#### (h) Loans and borrowings

Loans and borrowings are recognised initially at fair value net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest rate basis.

#### (i) Trade and other payables

Trade and other payables are stated at cost.

#### (j) Revenue

##### (i) Services rendered

Revenue from services rendered (e.g. management fees and transaction fees) are recognised in profit or loss as earned and is recorded as other operating income.

##### (ii) Equity investments

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

##### (iii) Interest income

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

#### (k) Income tax

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

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

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

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

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

The following new or revised standard is not effective for the period ended 31 December 2016, and has not been applied in preparing these financial statements.

NZ IFRS 9 – Financial Instruments – effective 1 January 2018. This standard introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

The Group does not plan to early adopt this standard and management have not yet determined the impact of this change.

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

## Notes to the consolidated financial statements

### 4. Determination of fair values

Investments in unlisted equity securities are valued at the Investment Managers' valuation by annual valuations carried out in accordance with the valuation principles set out by The International Private Equity and Venture Capital Association Limited (IPEV) which also ensures compliance with NZ IFRS 13 – Fair Value Measurement. Valuations are performed by Direct Capital Management Limited (formerly Direct Capital Limited) (see Note 7). These valuations require the use of significant judgement by the directors regarding estimated future earnings of the investments, and the use of appropriate earnings multipliers in determining the fair value of investments when no other observable inputs are available to the directors.

### 5. Administrative expenses

	2016	2015
Management fees	758,905	840,641
Advisory fees	2,028	3,512
Directors' fees	100,000	100,000
Other administrative expenses	91,534	79,686
	<u>952,467</u>	<u>1,023,839</u>

The following items of expenditure are included in administrative expenses:

Auditor's remuneration to KPMG comprises:

Audit of financial statements	24,629	27,451
Review of interim financial statements	8,021	7,245
Review of preferred return calculation	3,623	-
	<u>36,273</u>	<u>34,696</u>

### 6. Income tax expense

Income tax expense in statement of comprehensive income

2016	2015
-	-

#### Reconciliation of effective tax rate

	<i>Note</i>	2016	2015
Profit before tax		6,661,680	5,484,331
Income tax expense at 28% tax rate		1,865,270	1,535,613
Non-assessable income		(3,917,803)	(4,856,135)
Non-deductible expenses		1,975,139	3,148,095
Imputation credits received		(5,392)	(24,781)
Tax (profit)/losses not recognised	10	82,786	197,208
Total income tax expense in statement of comprehensive income		<u>-</u>	<u>-</u>

#### Imputation credits

Imputation credits available to shareholders of the parent company  
in subsequent reporting periods:

	2016	2015
Through investment companies	103,321	97,230
	<u>103,321</u>	<u>97,230</u>

## Notes to the consolidated financial statements

### 7. Investments – equity securities

#### Non-current investments

The Group has a number of investments in unlisted equity securities. The performance of these securities is actively monitored and group policy is to carry these investments initially at cost with subsequent movements in fair value recognised in the profit or loss. As there is no quoted market price for these securities, valuation techniques must be utilised to determine fair value (see Note 4). The valuations are carried out by Direct Capital Management Limited (formerly Direct Capital Limited) (see Note 18) using IPEV guidelines which also ensures compliance with NZ IFRS 13.

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

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

2016				
Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
BioPacificVentures	Private equity vehicle*	Various	*	896,402
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812
Fishpond Limited	Online retail	Oct 2009	4.5%	772,348
				<u>5,267,562</u>

2015				
Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.6%	4,775,157
BioPacificVentures	Private equity vehicle*	Various	*	2,721,193
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812
New Zealand King Salmon Investments Limited	Food	Sep 2008	10.8%	2,721,682
Fishpond Limited	Online retail	Oct 2009	4.5%	772,348
				<u>14,589,192</u>

\* BioPacificVentures invests across the entire spectrum of private equity both in early stage and later stage investments. Investments through this venture include: Horizon Science Pty Limited, Vital Food Processors Limited and CoDa Therapeutics Inc. Pohutukawa Alpha has an 11% share in all investments made by the fund, but the holdings in each of the portfolio companies vary.

## Notes to the consolidated financial statements

### 7. Investments – equity securities (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).

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

31 December 2015	Level 1	Level 2	Level 3	Total
Investments	-	-	32,226,828	32,226,828

There have been no transfers between levels during the year.

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

Investments	2016	2015
Opening balance	32,226,828	17,891,713
Total gains (or losses):		
Change in fair value	(229,677)	14,335,115
Investments at cost during the year	-	-
Divestments	(31,232,970)	-
Closing balance	764,181	32,226,828

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

Investments	2016	2015
Total gains (or losses) included in profit or loss for the year	8,837,463	14,335,115
Total gains (or losses) for the year included in profit or loss for assets held at the end of the reporting period	(229,677)	14,335,115

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.



## Notes to the consolidated financial statements

### 7. Investments – equity securities (continued)

#### b) 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 \$21,786 (2015: \$1,148,125). A movement in the downward adjustment factor of 5% changes the value of the investments by \$46,246 (2015: \$2,989,074). A movement in the maintainable earnings of 5% changes the value of the investments by \$36,997 (2015: \$2,604,411).

#### c) Fair value of investments portfolio

As investments in equity securities are carried at fair value through profit and loss in the Group, the results and net assets of the Portfolio Companies are not recognised in these financial statements. The fair value of the total investment portfolio as at 31 December 2016 was \$764,181 (2015: \$32,226,828).

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

The realisation of investments in NZP Holdings Limited and New Zealand King Salmon Investments Limited resulted in a net gain on sale of \$9,067,140 for the year ended 31 December 2016 (2015:\$Nil). This has been recognised in profit or loss.

### 8. Loans to portfolio companies

	2016	2015
New Zealand King Salmon Investments Limited	-	7,611,317
Stratex Group Limited	1	787,174
Vital Food Processors Limited	25,224	25,224
Coda Therapeutics Inc	5,469	5,469
	30,694	8,429,184
<i>Represented by:</i>		
Non-current loans	-	7,611,317
Current loans	30,694	817,867
	30,694	8,429,184

The current loans are either repayable on demand or expire within 12 months.

#### New Zealand King Salmon Investments Limited

During the reporting period the entire loan balance was capitalised into equity.

#### Stratex Group Limited

Stratex Group Limited (investment held by Pohutukawa Zeta Investments Limited) was advanced a further \$98,397 (2015: \$152,753) at an interest rate of 8.25% (2015: Nil%). There were no repayments during the reporting period. During the year interest of \$54,354 was accrued and capitalised to the loan (2015: \$Nil). For the year to December 2016 impairment of \$939,926 (2015: \$Nil) was recognised in profit or loss.

#### Vital Food Processors Limited

Vital Food Processors Limited (investment held by Pohutukawa Alpha Investments Limited) received no advances during the year ended 31 December 2016 (2015:\$2,480, interest rate of Nil%).

## Notes to the consolidated financial statements

### 9. Other receivables

	2016	2015
Income tax receivable	15	15
Prepayments	10,143	10,143
GST receivable	5,929	7,482
Fishpond dividend receivable	-	48,138
Other receivables	54,847	256,787
	<u>70,934</u>	<u>322,565</u>

As at 31 December 2016, no receivables are considered past due (2015: \$Nil).

### 10. Deferred tax assets and liabilities

#### Unrecognised deferred tax assets

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

	Note	2016	2015
Opening balance 1 January		1,125,944	928,736
Tax loss not recognised	6	82,786	197,208
Closing balance 31 December		<u>1,208,730</u>	<u>1,125,944</u>

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

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

Investment Companies taxation losses cannot be used by the parent.

### 11. Cash and cash equivalents

	2016	2015
Call deposits	744,317	535,742
Short-term deposits	949,943	921,424
Cash and cash equivalents in the statement of cash flows	<u>1,694,260</u>	<u>1,457,166</u>

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate for 2016 on call deposits was 2.50% (2015: 3.38%).

Short-term deposits are held with ANZ Bank New Zealand Limited. The weighted average interest rate on short-term deposits is 2.94% (2015: 3.83%).

## Notes to the consolidated financial statements

### 12. Share capital

Consolidated	Investment Co's		PPE		PPE	
	Preference shares		Ordinary shares		Preference shares	
<i>In millions of shares</i>	2016	2015	2016	2015	2016	2015
On issue at 1 January	477	583	53	53	3,569	3,608
Redemption and cancellation of shares	-	(106)	-	-	(1,896)	(39)
On issue at 31 December	477	477	53	53	1,673	3,569

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

At 31 December 2016, the share capital of the Company comprised 53,000,000 ordinary shares (2015: 53,000,000), and 1,673,260,900 preference shares (2015: 3,569,040,000). In addition, there are 477,000,000 (2015: 477,000,000) preference shares in the 9 (2015: 9) Investment Companies (53,000,000 in each).

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

The holders of ordinary shares are entitled to receive distributions as declared from time to time and are entitled to one vote per share at meetings of the Company. Distributions of \$18,407,209 were declared during the year by companies within the Group to shareholders (2015: \$670,562). All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to \$0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

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

### 13. Trade and other payables

	2016	2015
Directors fees payable	26,125	26,125
Non-trade payables and accrued expenses	23,000	26,725
	49,125	52,850

## Notes to the consolidated financial statements

### 14. Earnout Provision

	2016	2015
Opening provision	9,672,243	-
Change in provision due to change in fair value of investments	1,646,683	9,672,243
Distribution of earnout during the period	(10,815,311)	-
Closing earnout provision	503,615	9,672,243

In accordance with clause 11 of the Prospectus, the Earnout Holder is entitled to earnout calculated at 20% of net returns to Pohutukawa Private Equity Limited provided investors have received back their original investment together with further distributions producing a pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 31 December 2016 the estimated earnout provision is calculated at \$503,615 (2015: \$9,672,243), however this calculation is based on unrealised portfolio company fair value valuations of \$764,181 and loans receivable of \$30,694 being fully recovered. A provision has been recognised as there is some certainty that an earnout distribution will be payable. During the year ended 31 December 2016 \$10,815,311 (2015: \$Nil) of earnout has been distributed to the Earnout Holder.

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

	<i>Note</i>	2016	2015
Profit for the year		6,661,680	5,484,331
Adjustments for:			
Change in fair value of investments		229,677	(14,335,115)
Interest capitalised		(479,410)	-
Net impairment of loans from portfolio companies		252,699	(1,437,275)
(Gain) on realisation of investments		(9,067,140)	-
Change in trade and other receivables		268,985	(197,085)
Change in trade payables and accruals		(3,725)	(8,984)
Change in earnout provision	14	(9,168,628)	9,672,243
Net cash flow from/(to) operating activities		(11,305,862)	(821,885)



## Notes to the consolidated financial statements

### 16. Financial risk management

#### Introduction and overview

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

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

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

#### Equity price risk

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

#### Credit risk

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

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

#### Interest rate risk

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

#### Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances, short-term deposits and loans and receivables as detailed in Note 8. At balance date the effective interest rates for bank balances is 2.20% (2015: 3.00%), short-term deposits is 2.81% (2015: 3.43%), and loans advanced to portfolio companies which the Investment Companies hold an ownership interest in is a weighted average of 6.78% (2015: 5.81%).

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

#### Liquidity risk

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

## Notes to the consolidated financial statements

### 16. Financial risk management (continued)

#### Interest rate risk – repricing analysis

	<i>Note</i>	Total	Non interest bearing	Interest bearing
<b>2016</b>				
Cash and cash equivalents	11	1,694,260	-	1,694,260
Loans to portfolio companies	8	30,694	30,693	1
<b>Total</b>		<b>1,724,954</b>	<b>30,693</b>	<b>1,694,261</b>
<b>2015</b>				
Cash and cash equivalents	11	1,457,166	-	1,457,166
Loans to portfolio companies	8	8,429,184	817,867	7,611,317
<b>Total</b>		<b>9,886,350</b>	<b>817,867</b>	<b>9,068,483</b>

#### Sensitivity analysis

The sensitivity of interest rate movements has an immaterial impact on the financial statements of the Group.

#### Capital management

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

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

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

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

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

## Notes to the consolidated financial statements

### 16. Financial risk management (continued)

#### Classification and fair values

	<i>Note</i>	Designated at fair value profit or loss	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
<b>2016</b>						
<b>Assets</b>						
Cash and cash equivalents	11	-	1,694,260	-	1,694,260	1,694,260
Investments in equity securities	7	764,181	-	-	764,181	764,181
Loans to portfolio companies	8	-	30,694	-	30,694	30,694
Other receivables	9	-	54,849	-	54,849	54,849
<b>Total assets</b>		<b>764,181</b>	<b>1,779,803</b>	<b>-</b>	<b>2,543,984</b>	<b>2,543,984</b>

#### Liabilities

Trade and other payables	13	-	-	49,125	49,125	49,125
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>49,125</b>	<b>49,125</b>	<b>49,125</b>

	<i>Note</i>	Designated at fair value profit or loss	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
<b>2015</b>						
<b>Assets</b>						
Cash and cash equivalents	11	-	1,457,166	-	1,457,166	1,457,166
Investments in equity securities	7	32,226,828	-	-	32,226,828	32,226,828
Loans to portfolio companies	8	-	8,429,184	-	8,429,184	8,429,184
Other receivables	9	-	304,925	-	304,925	304,925
<b>Total assets</b>		<b>32,226,828</b>	<b>10,191,275</b>	<b>-</b>	<b>42,418,103</b>	<b>42,418,103</b>

#### Liabilities

Trade and other payables	13	-	-	52,850	52,850	52,850
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>52,850</b>	<b>52,850</b>	<b>52,850</b>

## Notes to the consolidated financial statements

### 17. Capital commitments and provisions

The Group has a commitment to invest a total of \$5,300,000 with BioPacificVentures Limited (BPV). These funds are called by BPV as required and as at 31 December 2016 the commitment was 99.6% drawn. \$18,761 remains payable (2015: \$18,761).

### 18. Related parties

#### a) Identity of related parties

The Company has a related party relationship with its Investment Companies (see Note 20).

Craigs Investment Partners Limited, as the administration manager, and Direct Capital Management Limited (formerly Direct Capital Limited), as the investment manager, own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited. Craigs Investment Partners Limited and Direct Capital III Investment Partners LP are limited partners in Pohutukawa I Investment Holdings LP which is the holder of ordinary shares in the Investment Companies. Certain directors of the Company and the Investment Companies are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital Management Limited.

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

#### b) Transactions with related parties

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

- Management fees paid to Pohutukawa Management Limited totalled \$623,636 (2015: \$731,993).
- Legal and operating expenses of \$3,865 were incurred by Direct Capital Management Limited during 2016 (2015: \$3,512). These were reimbursed by the Group.
- Surplus cash has been invested in ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Earnout of \$10,815,311 was distributed to Pohutukawa I Investment Holdings LP.

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

#### c) Transactions with key management personnel

	2016	2015
Directors fees (total remuneration)	100,000	100,000

The balance owing to key management personnel at 31 December 2016 is \$26,125 (2015: \$26,125).



## Notes to the consolidated financial statements

### 19. Subsequent events

There were no material subsequent events for the Group.

### 20. Group entities

#### Investment Companies

	Country of incorporation	Ownership interest*	
		2016	2015
Pohutukawa Alpha Investments Limited ("Alpha")	New Zealand	0%	0%
Pohutukawa Delta Investments Limited ("Delta")	New Zealand	0%	0%
Pohutukawa Zeta Investments Limited ("Zeta")	New Zealand	0%	0%
Pohutukawa Kappa Investments Limited ("Kappa")	New Zealand	0%	0%
Pohutukawa Lambda Investments Limited ("Lambda")	New Zealand	0%	0%
Pohutukawa Mu Investments Limited ("Mu")	New Zealand	0%	0%
Pohutukawa Nu Investments Limited ("Nu")	New Zealand	0%	0%
Pohutukawa Xi Investments Limited ("Xi")	New Zealand	0%	0%
Pohutukawa Omicron Investments Limited ("Omicron")	New Zealand	0%	0%

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

## Notes to the consolidated financial statements



# Independent Auditor's Report

To the shareholders of Pohutukawa Private Equity Limited.

## Report on the consolidated financial statements

### Opinion

In our opinion, the accompanying consolidated financial statements of Pohutukawa Private Equity Limited (the company) and its subsidiaries (the Group) on pages 11 to 29:

- i. Present fairly in all material respects the Group's financial position as at 31 December 2016 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards.

### We have audited the accompanying consolidated financial statements which comprise:

The consolidated statement of financial position as at 31 December 2016;

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

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



### Basis for opinion

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

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

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

Our firm has also provided other services to the Group in relation to other assurance services (review of interim financial statements) and agreed upon procedures (review of earn out calculation). Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.



### Other Information

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

## Notes to the consolidated financial statements

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



### Use of this Independent Auditor's Report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.



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

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

- The preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- Implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



### Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objective is:

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

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

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

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

[https://www.xrb.govt.nz/Site/Auditing\\_Assurance\\_Standards/Current\\_Standards/Page7.aspx](https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx)

This description forms part of our Independent Auditor's Report.

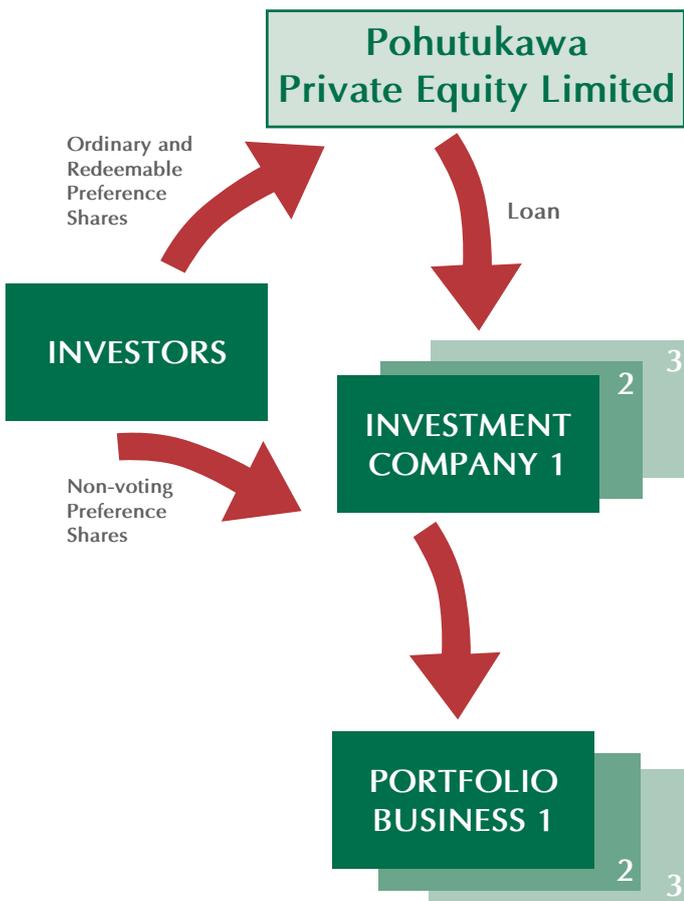
**KPMG**

KPMG  
Tauranga  
29 March 2017

## Corporate Governance & Structure

Pohutukawa Private Equity Limited (Pohutukawa) is the Fund. Investors hold both ordinary and redeemable preference shares in Pohutukawa. Investors also hold redeemable preference shares in each of the investment companies, which invest in the portfolio companies. These are called stapled securities. There are 53 million ordinary shares on issue. The number of ordinary shares on issue remains constant while the ratio of preference shares reduces as investments are realised and preference shares are redeemed.

The Pohutukawa structure is:



Ordinary shares held by investors in Pohutukawa confer normal voting rights on investors. The preference shares held by investors in both Pohutukawa and the Investment Companies confer no voting rights. The Manager (Direct Capital and Craigs Investment Partners), through Pohutukawa Investment Holdings Limited Partnership holds all the ordinary voting shares in each of the Investment Companies and exercises these rights in accordance with the Pohutukawa investment policy and investment criteria.

Pohutukawa has a separate Board to ensure best-practice corporate governance and to ensure that the shareholders' interests are held paramount. From 1 April 2017 the Board of Pohutukawa was reduced to two directors, with John McDonald being the independent director.

For so long as it holds at least 50% of the issued shares in the Manager, Craigs Investment Partners is entitled to appoint up to 50% of the directors of Pohutukawa Private Equity. All other directors of Pohutukawa can be appointed by directors or removed by ordinary resolution of the investors. The Directors of each Investment Company can be appointed or removed only by the limited partners.

The Board sets the investment policy and criteria, and reviews the performance of the Manager from time to time and reports to the shareholders on the review. It reviews the capital adequacy of Pohutukawa and is responsible for continuous disclosure and shareholder meetings of Pohutukawa.

The Manager is a 50/50 joint venture between Direct Capital and Craigs Investment Partners, both of whom provide services to the Manager on a contract basis. Direct Capital provides investment management services. Craigs Investment Partners provides fundraising, cash management, administration, investor communication, and investment sourcing and divestment assistance. The Investment Committee of the Manager is responsible for all investment decisions. Current members of the Investment Committee include Mark Hutton, Ross George, Travis Sydney, Heath Kerr, Neil Craig and Mike Caird.

### THE POHUTUKAWA BOARD

The Pohutukawa Board originally comprised four directors, two from Craigs Investment Partners and two independent directors. From 1 April 2017 the Board has been reduced to two directors whose profiles are shown below. The Board is responsible for appointing, and then monitoring the performance of the Manager, reviewing Pohutukawa's investment policy and criteria, and managing conflicts of interest between the Manager and Pohutukawa.

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**JOHN MCDONALD**  
**(Chairman and Independent Director)**

John is a Company director and trustee with more than 30 year's experience in executive and management positions with the former Fletcher Challenge group of companies through to his retirement in 2001. He has considerable international experience in management, finance, corporate governance best practice and as a director and audit committee member of private and publicly listed companies. John is currently a director of Horizon Energy Distribution Ltd and Oriens Capital Ltd, and he is Chairman of both Pohutukawa Private Equity Ltd and Pohutukawa Private Equity II Ltd. John was previously a director of Air New Zealand for 9 years.

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**NEIL CRAIG**  
**(Non-Executive Director)**

Neil is the founding principal and Executive Chairman of Craigs Investment Partners, a New Zealand Exchange Participant Firm, a company he has been instrumental in building from a small regionally based sharebroking business in Whakatane to its current position as a leading New Zealand investment advisory firm. Craigs Investment Partners has approximately 430 staff across 17 branches throughout New Zealand. Neil has a broad experience in private equity transactions, stock exchange listings, capital raisings and corporate activity for a wide range of companies. In a personal capacity Neil has been an active private equity investor for many years.

Neil is currently a director of Pohutukawa Private Equity Ltd, the first Pohutukawa fund, Pohutukawa Private Equity II Ltd, Pohutukawa Private Equity V Ltd, Kowhai Private Equity No.1 LP, Oriens Capital Ltd as well as Comvita Ltd (Chairman) and director of a number of privately held companies.



## Committees

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The Board has one committee, an Audit Committee, comprising all board members. The Audit Committee meets as required. The Audit Committee has full powers to require the Manager to provide any information or documents relating to the Fund, which it requires to enable it to meet the obligations of an Audit Committee. The Directors of Pohutukawa and Pohutukawa Management Limited must respond to any recommendations made to their Boards from the Audit Committee.

There is no remuneration committee because Pohutukawa and the Manager have no employees. The Chairman and Directors of Pohutukawa receive director's fees from Pohutukawa. The Manager is entitled to remuneration in respect of management of the funds. Information about the remuneration received by the Manager for this reporting period can be found in the financial statements set out in this report. The Manager does not pay director fees.

To the extent applicable and possible, the Board endeavours to adopt the governance structures and principles of a listed company.

The Investment Committee of the Manager is responsible for all investment decisions, subject to compliance with the investment policy set by the Board.

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## 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  
Craigs Investment Partners House  
158 Cameron Road  
PO Box 13155  
Tauranga 3141  
Phone: (07) 927 7927  
Email: [enquiries@pohutukawafund.co.nz](mailto:enquiries@pohutukawafund.co.nz)

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### MANAGER

Pohutukawa Management Limited  
Craigs Investment Partners House  
158 Cameron Road  
PO Box 13155  
Tauranga 3141  
Phone: (07) 927 7927  
Email: [enquiries@pohutukawafund.co.nz](mailto:enquiries@pohutukawafund.co.nz)

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### INVESTMENT MANAGER

**Direct Capital Limited**  
Level 6, 2 Kitchener Street  
P O Box 6466, Wellesley Street  
Auckland 1010  
Phone: (09) 307 2562

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### AUDITORS

**KPMG**  
247 Cameron Road  
Tauranga 3140  
Phone: (07) 578 5179

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### SHARE REGISTRY

**Computershare Investor Services Limited**  
159 Hurstmere Road  
Takapuna  
North Shore City 0622  
Private Bag 92119  
Auckland 1142  
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Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

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### SOLICITORS

**Chapman Tripp**  
Level 35, 23-29 Albert Street  
PO Box 2206  
Auckland 1140  
Phone: (09) 357 9000

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