Annual Report

For the Year Ended 31 December 2018

Pohutukawa

PRIVATE EQUITY II LIMITED

Contents

Report to Shareholders

April 2019

Dear Shareholder

I am pleased to present Pohutukawa II's 2018 Annual Report. The report includes the financial statements for the financial year ended 31 December 2018 with commentary on the performances of our portfolio companies and their prospects.

Pohutukawa II Fund

Pohutukawa II offer raised $82.5 million of Committed Capital in February 2009. Pohutukawa II co-invests with the Direct Capital IV Fund which together totals $325 million. Pohutukawa II has called $51.1 million to the end of the financial year 31 December 2018. On 18 December 2014 the Board decided to cap the maximum amount to be called to 80 cents per share (cps), a reduction of 20 cps in total Committed Capital. Investors have total Contributed Capital of 62 cps and it is unlikely that any further calls will be made.

Portfolio Performance

Both Cavalier Wool Holdings and Hiway Group were realised during the period. We congratulate our Investment Manager on these successful outcomes.

Pohutukawa II has three remaining investments.

Bayley's - The Group achieved an excellent annual result in 2018, especially against a backdrop of a more variable trading environment, increased compliance and the implementation of rules which have reduced activity in the property sector.

PF Olsen - PF Olsen recorded revenue and EBITDA ahead of expectations in 2018 and continues to benefit from strong tailwinds in the forestry industry.

George H Investments - GHI's principal assets are land and buildings at Silverstream Industrial Park in Mosgiel.

Comments on the individual portfolio company performances are provided from page 7 onwards.

Distributions to Shareholders

During 2018 Pohutukawa II made gross distributions of $10.7 million, equivalent to 13 cps. This included capital returns of $9.2 million from Hiway Group and Cavalier Wool Holdings, with the remainder being the distribution of $1.5 million in gross dividends from portfolio companies.

From inception to the end of 2018 Pohutukawa II has made gross distributions totalling $83 million, equivalent to 100.1 cps. This means shareholders have now received their full Contributed Capital (62 cps) back and a further 38 cps, before realisation of the remaining portfolio. Including the remaining portfolio at valuation, this represents a net internal rate of return of 15.8% per annum (after all costs, fees and earn-out) to 31 December 2018.

Report to Shareholders

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

Table 1 - Summary of Investor Returns

Investors Return to 31 December 2018		
Total capital paid	$ 0.62	
Gross Return to Investors		
September 2011		$ 0.02
September 2012		$ 0.04
May 2013		$ 0.03
November 2013		$ 0.04
May 2014		$ 0.04
August 2014		$ 0.16
April 2015		$ 0.02
November 2015		$ 0.35
April 2016		$ 0.10
November 2016		$ 0.04
June 2017		$ 0.02
December 2017		$ 0.02
October 2018		$ 0.13
Gross Return		$ 1.01
Assessed Net Asset Value 31 December 2018*		$ 0.15
Estimated Total Gross Return		$ 1.16

** Includes provision for earn out.*

Portfolio Company Investments

The original investment cost of the remaining portfolio was $10.1 million. Capital returns from George H Investments and PF Olsen total $3.0 million, reducing the current net investment cost to $7.1 million as shown in *Table 2* below.

Portfolio Weightings

The investments (at cost) and cash weightings at 31 December 2018 are shown in *Chart 1*.

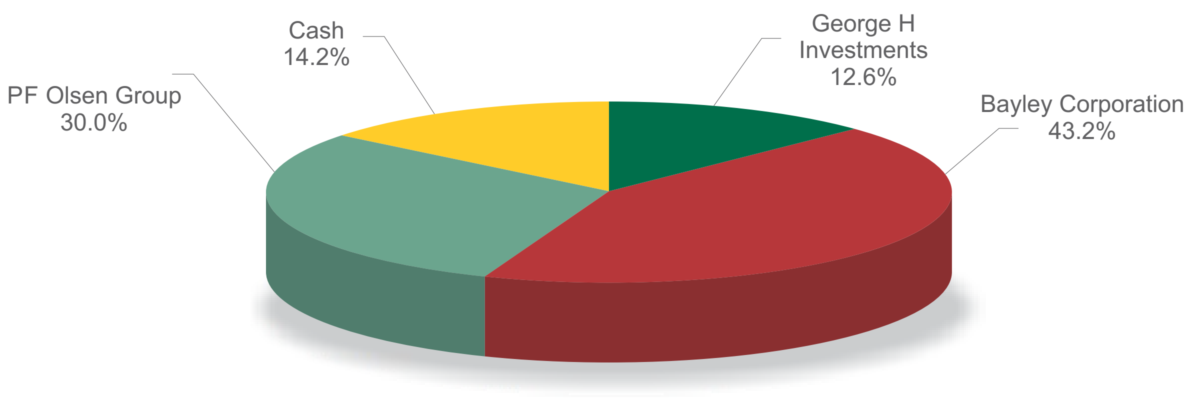
Table 2 - Pohutukawa II Investments at cost to 31 December 2018

Portfolio Company	Date of initial Investment	Industry Sector	Original Investment Cost* (NZ$000's)	Capital Returns	Current Investment Cost* (NZ$000's)	Pohutukawa II Shareholding %
Bayley Corporation	21 June 2010	Real Estate Services	$3,575	-	$3,575	7.4
George H Investments	22 July 2011	Investment Assets	$3,818	$2,776	$1,042	9.4
PF Olsen Group	15 Sep 2011	Forestry Services	$2,684	$209	$2,475	9.5
Total Investment Cost			**$10,077**	**$2,985**	**$7,092**	

** Including loans to portfolio companies*

Report to Shareholders

Chart 1 - Pohutukawa II investments at cost to 31 December 2018



Portfolio Company Investment Revaluations

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

The portfolio was valued at $14.6 million at 31 December 2018, which compared to the net investment cost of $7.1 million. Shareholders have received gross distributions of $83 million. This represents a current net internal rate of return after earn out of 15.8% to 31 December 2018. The portfolio return performance to date continues to be outstanding.

Annual Financial Statements 31 December 2018

Our financial statements for the year ended 31 December 2018, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At balance date shareholders' funds were $12.7 million, equivalent to a net asset backing of 15.4 cps.

Pohutukawa II is in a strong financial position and the Fund has no debt.

Assets comprised:

- Investments & loans $14.6 million
- Cash $1.2 million

Income was derived from interest of $51,867 from our short-term deposits. Dividend income of $1.0 million was received from portfolio companies.

The investment portfolio was re-valued under the fair value method at 31 December 2018. There was a $1.4 million decrease in fair value of investments, offset by a $1.9 million gain on the realisation of investments.

Administrative expenses were $946,528 (2017 $1.1 million). Of the total administrative expenses, management fees were $755,593 (2017 894,440) and director' fees $85,000.

The profit for the period was $874,737 (2017 $2.5 million).

Earn out of $2,572,477 was paid during the financial period (2017 $676,281). The earn out is calculated at 20% of the net returns of Pohutukawa II provided first that shareholders have received back in distributions their original investment plus a pre-tax compound return of 8% per annum, which has been achieved.

Report to Shareholders

Table 3 shows the Pohutukawa II Financial Performance Summary for the year ended 31 December 2018.

Table 3 Pohutukawa II Financial Performance Summary

Pohutukawa II Financial Performance Summary For the year ended 31 December 2018		
	2018 $000	**2017 $000**
Operating Results		
Interest income	52	62
Dividend income	1,021	1,862
Option income	394	-
Change in fair value of investments	(1,389)	2,769
Gain on sale of investments	1,934	83
Portfolio co. loan impairment		(542)
Administrative Expenses	(946)	(1,096)
Movement in earnout provision	(191)	(622)
Profit for the year	875	2,516
Share performance		
Stapled Securities on issue	82,500,000	82,500,000
*Estimated Net Asset backing per share	$0.15	$0.27

** Includes provision for earnout*

The Manager

One of the roles of the Pohutukawa II Board is to review the Manager's performance. Quarterly reviews are undertaken. 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.

Call Programme

Your Pohutukawa II shares are currently paid to 62 cps. In December 2014 we advised shareholders that your capital commitment would be reduced from $1 per share to 80 cps. There are no further calls anticipated.

Secondary Market

Craigs Investment Partners facilitates a secondary market for your Pohutukawa II shares, and details are available on the Pohutukawa website www.pohutukawafund.co.nz

The last sale price for Pohutukawa II shares was 14.5 cents while the net asset backing was 15.4 cps, after allowing for earn out.

Annual Shareholders Meeting

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

- **Date: Wednesday, 22 May 2019**
- **Time: 2.30pm**
- **Place: Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland**
- **RSVP: By 13 May 2019. Contact Peter Lalor on 07 927 7927 or** enquiries@pohutukawafund.co.nz

As with previous years the ASM will be held in conjunction with the Pohutukawa I ASM, and the Pohutukawa V ASM.
We look forward to seeing you at the meetings.

Thank you for your ongoing support of Pohutukawa Private Equity II.

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

Yours sincerely
POHUTUKAWA PRIVATE EQUITY II LIMITED

John McDonald
Chairman

Manager's Report on Portfolio Companies

The Manager is pleased to report on a successful portfolio performance for the year ended 31 December 2018.

2018 was positive for the portfolio which saw two realisations, which resulted in a gross distribution of 13 cents per share to Pohutukawa II shareholders in October 2018. Pohutukawa II has now distributed gross proceeds of $1.01, well in excess of the 62cps capital contribution, a very pleasing result for the fund, and there are three remaining portfolio companies which continue to distribute imputed dividends.

Some of the key developments or initiatives in the portfolio companies include:

- Bayleys and PF Olsen continue to trade well and the Manager is actively looking at ways to crystalise value; and
- George H Investments has continued positive progress with realising several industrial properties.

Each remaining portfolio company and their individual prospects are highlighted in the company summaries that follow.

Manager's Report on Portfolio Companies

BAYLEY CORPORATION LIMITED

www.bayleys.co.nz

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
June 2010	Real Estate	Expansion	$3,575	7.4*

* Total shareholding managed by Direct Capital 31%

Background

Bayleys is a property services company operating nationally from 90 corporate owned and franchise offices, and has a leading position in marketing commercial, industrial, rural properties, and high-value residential property sales. In addition to real estate agency, Bayleys offers facilities and asset management, valuation, leasing, research and advisory services.

Performance

Bayley's Commercial and Industrial Division performed well, with volumes up and prices steady on a year-on-year basis.

In the national residential market, sales volumes are lower than but within 5% of their long run average (on a seasonally adjusted basis). Bayleys is holding the market-share gains it has made over the last few quarters.

Activity in the Rural and Lifestyle business was strong, with transaction volumes and completed sale value both up on last year.

Asset Management work was above expectations. Bayleys' recent appointment as property manager for the Blackstone NZ portfolio takes the value of property managed to over $3 billion. Activity in the valuations business was also up strongly, boosted by the recent Knight Frank acquisition.

Outlook

The company's strong balance sheet enables it to continue to selectively target high-priority acquisitions, and management are currently reviewing several opportunities.

Property Insight 2019

Waterfront Magazine

Country Magazine

Total Property Magazine

Manager's Report on Portfolio Companies

GEORGE H INVESTMENTS LIMITED

Date of Investment	Industry Sector	Stage	Total Adjusted Investment Cost $000	Shareholding %
July 2011	Agri-Services	Buyout	$1,042	9.4*

* Total shareholding managed by Direct Capital 82.6%

Background

George H Investments Limited (GHI) holds industrial property assets.

GHI's principal assets are currently land and buildings at Silverstream Industrial Park in Mosgiel.

Performance

Silverstream Industrial Park

Good progress has been made with three sites remaining to be sold, which are currently for sale.

Outlook

It is expected that the Silverstream sites will be fully sold during the course of 2019 with capital then being returned to investors.

Manager's Report on Portfolio Companies

PF OLSEN GROUP LIMITED

www.pfolsen.co.nz

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
September 2011	Agri-Services	Buyout	$2,475	9.5*

* Total shareholding managed by Direct Capital 40.0%

Background

PF Olsen is Australasia's largest independent forestry and rural asset manager.

Performance

The international market for Australasian wood products remained firm through the 2018 year which flowed through to PF Olsen's full year result. The business recorded revenue and EBITDA ahead of expectation and in line with the previous year despite an unbudgeted customer loss.

The business continues to benefit from strong growth in afforestation activities and participated in one of the strongest planting programmes in recent decades. Similarly, the volume of wood available for harvest and market prices available remain highly favourable and the business continues to enjoy strong growth in underlying harvesting activity.

PF Olsen remained cash generative making two meaningful dividends during the year while maintaining a strong balance sheet.

Concurrent with a positive financial result the business achieved its best ever health and safety performance both internally and inclusive of subcontractor company performance.

Outlook

Overall the outlook is positive for forestry and PF Olsen's place in the sector.

Stability in log prices, an approaching 'wall of wood', the Government's 1 billion tree programme, and high carbon prices coupled with changes to the emission trading scheme are combining to provide for strong growth opportunities over the medium and longer term.

Directors' Report

For the year ended 31 December 2018

The following table shows Directors holding office during the year, and the amount of director fees paid during the year.

	Directors Fees $	Date of appointment
J McDonald	30,000	04-Nov-08
M Prendergast	30,000	19-Nov-08
N Craig	12,500	19-Nov-08
M Caird	12,500	27-Sep-13

Entries recorded in the interests register

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

Directors' shareholdings and dealings in Pohutukawa II at 31 December 2018

The directors of Pohutukawa II also have co-investment rights in all Pohutukawa II investments. Holdings (including relevant interests) are as follows:

Pohutukawa II Director Investment Disclosure 31 December 2018 (Directors holding office at 31 December 2018)				
Investment Holding	**J McDonald**	**M Prendergast**	**N Craig**	**M Caird**
	No. Securities	**No. Securities**	**No. Securities**	**No. Securities**
Pohutukawa II	100,000	25,000	110,000	-
Bayley Corporation Ltd	5,015	5,015	3,115	1,107
George H Investments	11,847	11,847	4,181	7,933
PF Olsen Group Ltd	2,077	2,076	924	924

Director

18 March 2019

Date

Director

18 March 2019

Date

Statement of comprehensive income

For the year ended 31 December 2018

	Note	2018	2017
Interest income		51,867	61,952
Dividend income		1,020,955	1,862,099
Option income		394,002	-
Change in fair value of investments		(1,388,819)	2,769,488
Gain on realisation of investments	*7(d)*	1,934,352	82,769
Impairment of loans to portfolio companies	*9*	-	(542,158)
Movement in earnout provision	*14*	(191,092)	(621,983)
Administrative expenses	*5*	(946,528)	(1,096,182)
Profit before tax		874,737	2,515,985
Income tax expense	*6*	-	-
Profit for the year		874,737	2,515,985
Other comprehensive income for the year		-	-
Total comprehensive income for the year		874,737	2,515,985
Attributable to:			
Equity holders of the parent		(362,423)	(280,793)
Equity holders of the investment companies	*3a(iv)*	1,237,160	2,796,778
Profit and total comprehensive income for the year attributable to the equity holders of stapled securities		874,737	2,515,985

Statement of changes in equity

For the year ended 31 December 2018

	Note	Attributable to equity holders of the parent			Attributable to	
		Share capital	Retained losses	Total	equity holders of the investment companies	Total equity
Balance at 1 January 2018		31,610,701	(14,451,315)	17,159,386	5,120,593	22,279,979
Total comprehensive income for the year		-	(362,423)	(362,423)	1,237,160	874,737
Redemption of share capital	*12*	(5,696,791)	-	(5,696,791)	-	(5,696,791)
Distributions to equity holders	*12*	-	(595,181)	(595,181)	(4,108,303)	(4,703,484)
Balance at 31 December 2018		25,913,910	(15,408,919)	10,504,991	2,249,450	12,754,441
Balance at 1 January 2017		32,187,450	(14,170,522)	18,016,928	4,452,186	22,469,114
Total comprehensive income for the year		-	(280,793)	(280,793)	2,796,778	2,515,985
Redemption of share capital	*12*	(576,749)	-	(576,749)	-	(576,749)
Distributions to equity holders	*12*	-	-	-	(2,128,371)	(2,128,371)
Balance at 31 December 2017		31,610,701	(14,451,315)	17,159,386	5,120,593	22,279,979

Statement of financial position

As at 31 December 2018

	Note	2018	2017
Assets			
Receivables and prepayments	8	236,890	9,022
Cash and cash equivalents	11	1,182,707	1,778,084
Total current assets		1,419,597	1,787,106
Loans to portfolio companies	9	-	346,799
Investments – equity securities	7(c)	14,582,837	25,777,936
Total non-current assets		14,582,837	26,124,735
Total assets		16,002,434	27,911,841
Equity			
Issued capital	12	25,913,910	31,610,701
Retained losses		(15,408,919)	(14,451,315)
Total equity attributable to equity holders of the parent		10,504,991	17,159,386
Equity attributable to equity holders of the investment companies	3a(iv)	2,249,450	5,120,593
Total equity attributable to equity holders of stapled securities		12,754,441	22,279,979
Liabilities			
Trade and other payables	13	59,381	61,865
Total current liabilities		59,381	61,865
Earnout provision	14	3,188,612	5,569,997
Total non-current liabilities		3,188,612	5,569,997
Total liabilities		3,247,993	5,631,862
Total equity and liabilities		16,002,434	27,911,841

For and on behalf of the Board

Director

18 March 2019

Date

Director

18 March 2019

Date

Statement of cash flows

As at 31 December 2018

	Note	2018	2017
Cash flows from/(to) operating activities			
Dividends received		1,020,955	1,862,099
Option income		394,002	-
Interest received		46,619	61,952
Cash paid to suppliers		(957,151)	(1,087,022)
Distribution of earnout	14	(2,572,477)	(676,281)
Net cash from/(to) operating activities	15	(2,068,052)	160,748
Cash flows from /(to) investing activities			
Acquisition of investments		-	(110,724)
Realisations from investments		11,526,151	1,161,426
Repayment of loans from portfolio companies	9	346,799	368,135
Net cash from investing activities		11,872,950	1,418,837
Cash flows from /(to) financing activities			
Redemption of preference shares	12	(5,696,791)	(576,749)
Distributions to equity holders	12	(4,703,484)	(2,128,371)
Net cash from/(to) financing activities		(10,400,275)	(2,705,120)
Net movement in cash and cash equivalents		(595,377)	(1,125,535)
Cash and cash equivalents at 1 January		1,778,084	2,903,619
Cash and cash equivalents at 31 December	11	1,182,707	1,778,084

Notes to the consolidated financial statements

1. Reporting entity

Pohutukawa Private Equity II Limited (the "Company") is a company incorporated and domiciled in New Zealand. Pohutukawa Private Equity II Limited and the 12 (2017: 12) Investment Companies, refer Note 19, are registered under the Companies Act 1993 and are reporting entities for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The consolidated financial statements of the Group for the year ended 31 December 2018 comprise the Company and 12 (2017: 12) Investment Companies (together referred to as the "Group").

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

The financial statements were approved by the Directors on 18 March 2019.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The 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 all 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 II Limited, investors also hold 100 preference shares in Pohutukawa Private Equity II Limited as well as one preference share in each of the 12 (2017: 12) Investment Companies. All of these shares are stapled securities. This stapling arrangement creates a business combination by contract alone without any individual entity obtaining an ownership interest. The Group has designated Pohutukawa Private Equity II Limited as the acquirer and the parent entity

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(i) Stapled securities (continued)

for the purpose of preparing consolidated financial statements. The 12 (2017: 12) companies combining under the stapling arrangement are designated as the Investment Companies, refer Note 19, which invest in Portfolio Companies, refer Note 7.

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

(ii) Associates

Investments in equity securities, 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 the investment companies

Equity attributable to equity holders of the 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 equity securities are financial assets designated at fair value through profit or loss, as they are managed by the Group on a fair value basis. They are presented as non-current assets in the statement of financial position and 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 initially recognised at fair value and subsequently measured at amortised cost less impairment losses (see accounting policy 3(g)).

(d) Loans receivable

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

(e) Finance expense - interest

Finance expense comprises interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(f) Cash and cash equivalents

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

(g) 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(l)), 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 based on the present value of estimated future cash flows, discounted at the original effective interest rate.

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(g) Impairment *(continued)*

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

(h) Share capital

(i) Ordinary share capital

Share capital is recognised as paid in capital when a call has been made to shareholders, and is due. Calls are made in tranches of $0.05 per share.

(ii) 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.

(iii) 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.

(iv) Dividends

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

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

(j) Trade and other payables

Trade and other payables are stated at cost.

(k) Revenue

(i) Equity investments

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

(ii) Interest income

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

(l) 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. 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.

(m) Change in accounting policy

The Group has applied NZ IFRS 15 'Revenue from Contracts with Customers' (NZ IFRS 15) from 1 January 2018. There has been no impact in the recorded balances or disclosures as a result of implementing this new standard.

The Group has adopted NZ IFRS 9 'Financial Instrument: Classification and Measurement' (NZ IFRS 9) with an initial application date of 1 January 2018.

This standard sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(m) Change in accounting policy *(continued)*

NZ IFRS 9 contains three principle classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) and eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. NZ IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Impairment of financial assets

NZ IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The Group has determined that the application of NZ IFRS 9's impairment requirements at 31 December 2018 does not have any impact on recorded balances or disclosures.

4. Determination of fair values

Investments in unlisted equity securities are valued at the Investment Managers' valuation in the year of acquisition and subsequently 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 IV Management 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.

Financial assets	Original classification under IAS 39	New classification under NZ IFRS 9	Original carrying amount under IAS 39	New carrying amount under NZ IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised Cost	1,182,707	1,182,707
Other receivables	Loans and receivables	Amortised Cost	236,890	236,890
Investments – equity securities	Fair value through profit and loss	Fair value through profit and loss	14,582,837	14,582,837
Financial liabilities	**Original classification under IAS 39**	**New classification under NZ IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under NZ IFRS 9**
Trade and other payables	Financial liabilities	Financial liabilities	59,381	59,381

Notes to the consolidated financial statements

5. Administrative expenses

	Note	2018	2017
Management fees	17(b)	755,593	894,440
Directors' fees	17(c)	85,000	85,000
Other administrative expenses		105,935	116,742
		946,528	1,096,182

The following items of expenditure are included in administrative expenses:

	2018	2017
Auditor's remuneration to KPMG comprises:		
Audit of financial statements	31,188	31,139
Review of interim financial statements	7,560	7,350
	38,748	38,489

6. Income tax expense

	Note	2018	2017
Income tax expense in statement of comprehensive income		-	-

Reconciliation of effective tax rate

	Note	2018	2017
Profit before tax		874,737	2,515,985
Income tax expense at 28% tax rate		244,926	704,476
Non-deductible expenses		434,645	445,599
Non-assessable income		(532,504)	(1,088,551)
Imputation credits received		(285,867)	(521,388)
Tax losses not recognised	10	138,800	459,864
Total income tax expense in statement of comprehensive income		-	-

Imputation credits

	2018	2017
Imputation credits available to shareholders of the parent company:		
Through investment companies	61,880	98,387
	61,880	98,387

Notes to the consolidated financial statements

7. Investments – equity securities

Non-current investments

The Group has three investments in unlisted equity securities (2017: five). 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 through profit or loss. Where there is no quoted market price for these securities, valuation techniques must be utilised to determine fair value. The valuations are carried out by Direct Capital IV Management Limited (see Note 17) using IPEV valuation 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.

2018

Entity name	Activities	Acquisition date	Cost
Bayley Corporation Limited	Real Estate Services	Jun 2010	3,574,666
George H Investments Limited	Property investor	Jul 2011	1,042,533
PF Olsen Group Limited	Forestry management	Sept 2011	2,475,636
			7,092,835

2017

Entity name	Activities	Acquisition date	Cost
Bayley Corporation Limited	Real Estate Services	Jun 2010	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	3,336,366
George H Investments Limited	Property investor	Jul 2011	1,042,533
PF Olsen Group Limited	Forestry management	Sept 2011	2,475,636
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	3,437,897
			13,867,098

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 2018	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	14,582,837	14,582,837

31 December 2017	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	25,777,936	25,777,936

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	2018	2017
Opening balance	25,777,936	23,976,380
Total gains:		
In profit or loss (realised and unrealised)	545,533	2,852,258
Investments at cost during the year	-	110,724
Capital returns	(11,740,632)	(1,161,426)
Closing balance	14,582,837	25,777,936

Total gains included in the above table are presented in the statement of comprehensive income as follows:

Investments	2018	2017
Total gains/(losses) included in profit or loss for the year	545,533	2,852,258
Total gains/(losses) for the year included in profit or loss for assets held at the end of the reporting period	(1,388,819)	2,769,488

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 7(b) for sensitivity analysis with regards to the earnings multiple or adjustment factor.

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 $362,755 (2017: $1,355,504). A movement in the downward adjustment factor of 5% changes the value of the investments by $798,272 (2017: $1,653,357). A movement in the maintainable earnings of 5% changes the value of the investments by $638,618 (2017: $1,351,318).

(c) Fair value of investments

As investments in equity securities are carried at fair value 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 2018 was $14,582,837 (2017: $25,777,936).

(d) Gain on realisation of investments

Cavalier Wool Holdings Limited was realised during the year ended 31 December 2018 resulting in a loss on disposal of $14,487, while the sale of Hiway Group Limited realised gains of $1,948,839 (2017: George H Investments Limited, gain of $82,769). These have been recognised in profit or loss.

8. Receivables and prepayments

	2018	2017
GST receivable	2	2,050
Other receivables	229,922	6
Prepayments	6,966	6,966
	236,890	9,022

As at 31 December 2018, no receivables are considered past due (2017: $Nil).

9. Loans to Portfolio Companies

	2018	2017
Hiway Group Limited	-	346,799
	-	346,799

Hiway Group Limited

Hiway Group Limited (investment held by Pohutukawa Zeta Limited) fully repaid $346,799 during the year (2017: $368,135).

Notes to the consolidated financial statements

10. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

	Note	2018	2017
Opening balance 1 January		4,361,587	3,901,723
Tax losses not recognised	*6*	138,800	459,864
Closing balance 31 December		4,500,387	4,361,587

Due to the nature of the stapled securities, and the fact that ordinary shares in the Investment Companies are owned by Pohutukawa II Investment Holdings LP, there is no ability to offset losses between the Parent (Pohutukawa Private Equity II 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 not certain 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

	2018	2017
Call deposits	382,707	1,778,084
Short-term deposits	800,000	-
Cash and cash equivalents in the statement of cash flows	1,182,707	1,778,084

Call deposits and short-term deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate for 2018 on call deposits was 2.25% (2017: 2.20%) and short-term deposits was 3.15% (2017: n/a).

Notes to the consolidated financial statements

12. Share capital

Share capital

	Investment Co's Preference shares		PPE II Ordinary shares		PPE II Preference shares	
In millions of shares	2018	2017	2018	2017	2018	2017
On issue at 1 January	990	990	82.5	82.5	6,297	6,355
Cancellation of shares	-	-	-	-	-	-
Redemption of shares	-	-	-	-	(570)	(58)
On issue at 31 December	990	990	82.5	82.5	5,727	6,297

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

At 31 December 2018, the share capital of the Company comprised 82,500,000 ordinary shares (2017: 82,500,000), and 5,727,199,900 preference shares (2017: 6,296,880,400). In addition, there are 990,000,000 (2017: 990,000,000) preference shares in the 12 (2017: 12) Investment Companies (82,500,000 in each).

Ordinary shares and Investment Company preference shares have been allotted at nil value. The Pohutukawa Private Equity II Limited shares (stapled shares) have been issued at $1.00 per share, paid to $0.62. During the year there were no calls (2017: $Nil). Subsequent calls will be in tranches of a minimum of $0.05 per share and subject to 30 days advance notice.

The prospectus states that any residual balance up to the $1.00 per share price will become payable in full on the fifth anniversary of allotment, however on 18 December 2014 the directors notified shareholders that the maximum amount to be called is now capped at $0.80.

Following the $0.80 cap announcement in December 2014, shareholders have a commitment to fund a further $0.18 per share totalling $14.85 million (2017: $0.18 per share totalling $14.85 million) in subsequent calls, subject to Board approval. Calls will not be made unless the proceeds of all previous calls have been invested or committed in full.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Distributions of $4,703,484 ($0.057 per share) were declared during the year by companies within the Group (2017: $2,128,371, $0.026 per share). All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to $0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

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

Notes to the consolidated financial statements

13. Trade and other payables

	2018	2017
Trade payables and accrued expenses	59,381	61,865
	59,381	61,865

14. Earnout Provision

	2018	2017
Opening provision	5,569,997	5,624,295
Movements during the year	191,092	621,983
Distribution of earnout during the period	(2,572,477)	(676,281)
Closing earnout provision	3,188,612	5,569,997

In accordance with clause 10 of the Prospectus the Earnout holder is entitled to earnout calculated at 20% of net returns to Pohutukawa Private Equity II 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 2018 the estimated earnout provision is calculated at $3,188,612 (2017: $5,569,997). This calculation is based on unrealised portfolio company fair value valuations of $14,582,837 (2017: $25,777,936 and loans receivable of $346,799) being fully recovered. During the year ended 31 December 2018 $2,572,477 (2017: $676,281) of earnout has been distributed to the Earnout holder.

15. Reconciliation of profit after taxation to the net cash flow from operating activities

	Note	2018	2017
Profit for the year		874,737	2,515,985
Adjustments for:			
Change in fair value of investments		1,388,819	(2,769,488)
Net gain on realisation of investment		(1,934,352)	(82,769)
Impairment of loans to portfolio companies		-	542,158
Change in trade and other receivables		(13,387)	(1,112)
Change in trade payables and accruals		(2,484)	10,272
Change in earnout provision	*14*	(2,381,385)	(54,298)
Net cash flow to/(from) operating activities		(2,068,052)	160,748

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 the end of the reporting period there were no significant concentrations of credit risk.

The Group invests its surplus funds in short-term deposits with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited (refer Note 17). 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 and short-term deposits. Management invests excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required. The Group may also borrow short-term funds at floating rates due to the short-term nature of these borrowings.

Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances and short-term deposits. At the end of the reporting period the effective interest rates for bank balances are 2.25% (2017: 2.25%) and short-term deposits 3.15% (2017: n/a). Bank balances reprice daily.

Liquidity risk

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

Notes to the consolidated financial statements

16. Financial risk management *(continued)*

Interest rate risk – repricing analysis

	Note	Total	Non interest bearing	6 months or less
2018				
Cash and cash equivalents	*11*	1,182,707	-	1,182,707
Total		1,182,707	-	1,182,707
2017				
Cash and cash equivalents	*11*	1,778,084	-	1,778,084
Total		1,778,084	-	1,778,084

Loans to portfolio companies as disclosed in the Statement of Financial Position are non interest bearing and therefore have not been included in the above table.

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. As disclosed in Note 12, $0.62 per share has been paid on the capped $0.80 per share (2017: $0.62 per share). The remaining $0.18 (2017: $0.18) will be called as required in accordance with the terms of the prospectus (See Note 12 on call extension).

The Group has the power to borrow only with the prior written approval of the Board, other than in respect of borrowings with a maturity date not in excess of ninety days (provided that in no case shall such borrowings exceed called but unpaid capital commitments).

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

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

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

Notes to the consolidated financial statements

16. Financial risk management *(continued)*

Classification and fair values

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
2018						
Assets						
Cash and cash equivalents	*11*	-	1,182,707	-	1,182,707	1,182,707
Receivables	*8*	-	229,924	-	229,924	229,924
Investments – unlisted equity securities	*7(c)*	14,582,837	-	-	14,582,837	14,582,837
Total assets		14,582,837	1,412,631	-	15,995,468	15,995,468
Liabilities						
Trade and other payables	*13*	-	-	59,381	59,381	59,381
Total liabilities		-	-	59,381	59,381	59,381

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
2017						
Assets						
Cash and cash equivalents	*11*	-	1,778,084	-	1,778,084	1,778,084
Receivables	*8*	-	2,056	-	2,056	2,056
Investments – unlisted equity securities	*7(c)*	25,777,936	-	-	25,777,936	25,777,936
Loans to portfolio companies	*9*	-	346,799	-	346,799	346,799
Total assets		25,777,936	2,126,939	-	27,904,875	27,904,875
Liabilities						
Trade and other payables	*13*	-	-	61,865	61,865	61,865
Total liabilities		-	-	61,865	61,865	61,865

Notes to the consolidated financial statements

17. Related parties

a) Identity of related parties

The Company has a related party relationship with its Investment Companies (see Note 19).

Craigs Investment Partners Limited, as the administration manager, and Direct Capital IV Management Limited, as the investment manager, own 50% each of Pohutukawa II Management Limited, the Manager of Pohutukawa Private Equity II Limited. Craigs Investment Partners Limited and Direct Capital IV Investment Partners LP are limited partners in Pohutukawa II Investment Holdings LP which is the holder of the 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 IV Management Limited.

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

b) Transactions with related parties

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

- Management fees paid to Pohutukawa II Management Limited totalled $775,593 (2017: $894,440).
- Call deposits of $382,707 (2017: $1,773,373) and short-term deposits of $800,000 (2017: nil) are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Earnout of $2,572,477 (2017: $676,281) was distributed to Pohutukawa II 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

	2018	2017
Directors fees (total remuneration)	85,000	85,000

The balance owing to key management personnel at 31 December 2018 is $29,975 (2017: $21,250).

18. Subsequent events

There were no material subsequent events for the Group.

Notes to the consolidated financial statements

19. Group entities

Investment Companies

	Country of incorporation	Ownership interest* 2017	2016
Pohutukawa Alpha Limited ("Alpha")	New Zealand	0%	0%
Pohutukawa Beta Limited ("Beta")	New Zealand	0%	0%
Pohutukawa Gamma Limited ("Gamma")	New Zealand	0%	0%
Pohutukawa Delta Limited ("Delta")	New Zealand	0%	0%
Pohutukawa Epsilon Limited ("Epsilon")	New Zealand	0%	0%
Pohutukawa Zeta Limited ("Zeta")	New Zealand	0%	0%
Pohutukawa Eta Limited ("Eta")	New Zealand	0%	0%
Pohutukawa Theta Limited ("Theta")	New Zealand	0%	0%
Pohutukawa Iota Limited ("Iota")	New Zealand	0%	0%
Pohutukawa Kappa Limited ("Kappa")	New Zealand	0%	0%
Pohutukawa Lambda Limited ("Lambda")	New Zealand	0%	0%
Pohutukawa Mu Limited ("Mu")	New Zealand	0%	0%

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

Audit report

Independent Auditor's Report

To the shareholders of Pohutukawa Private Equity II Limited.

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Pohutukawa Private Equity II Limited (the company) and its subsidiaries (the group) on pages 11 to 30:

i. present fairly in all material respects the Group's financial position as at 31 December 2018 and its financial performance and cash flows for the year ended on that date; and
ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Our firm has also provided other services to the group in relation to other assurance services (review of interim financial statements) and reviewing the annual tax returns. 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.

Audit report

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Valuation of Investments	
Refer to Note 7 to the financial statements. The group holds private equity investments of $14.6m. This is a key audit matter due to following: • The level of judgement required, and estimation uncertainty involved in determining the fair value of the investments held. • The impact of the investment value on the earnout provision recognised.	Our audit procedures included: • In conjunction with our valuation specialists, assessment of whether the valuation methodologies used to fair value each investment are appropriate. • Agreeing key inputs used in the group models for each portfolio company to supporting external documentation. • Evaluate the appropriateness of key assumptions used in valuation models, including maintainable earnings, earnings multiples and marketability discounts. As a result of the procedures above, no material errors were identified.

Other Information

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

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

Use of this independent auditor's report

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

Audit report

Responsibilities of the Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

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

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

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

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

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

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

For and on behalf of

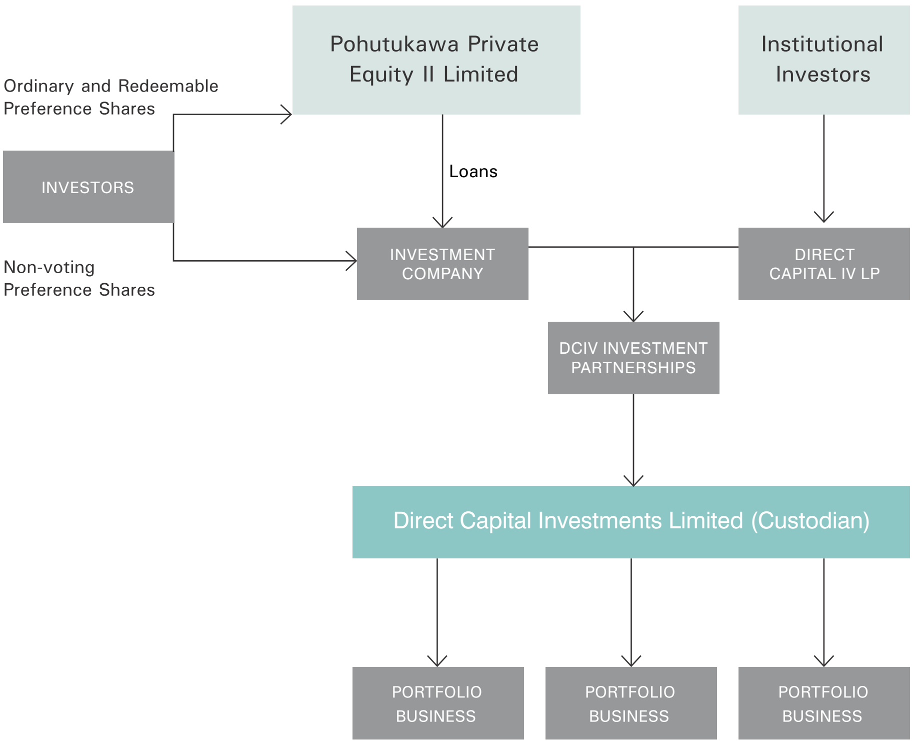
KPMG

Tauranga
18 March 2019

Corporate Governance & Structure

Pohutukawa Private Equity II Limited (Pohutukawa II) is the Fund. Investors hold both ordinary and redeemable preference shares in Pohutukawa II. Investors also hold redeemable preference shares in each of the special purpose vehicles (Investment Companies), which invest in the portfolio companies. These are called stapled securities. There are 82.5 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.

Pohutukawa II co-invests with Direct Capital IV in each investment in proportion to the level of committed capital of each of Pohutukawa II and Direct Capital IV. The structure is shown below:



Ordinary shares held by investors in Pohutukawa II confer normal voting rights on investors. The preference shares held by investors in both Pohutukawa II and the Investment Companies confer no voting rights. The Manager (Direct Capital IV Management and Craigs Investment Partners), through Pohutukawa II 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 II investment policy and investment criteria.

Pohutukawa II has a separate Board to ensure best-practice corporate governance and to safeguard shareholders' interests. The Board has two independent directors.

Craigs Investment Partners is entitled to appoint up to 50% of the directors of Pohutukawa II. All other directors of Pohutukawa II can be appointed by directors or removed by ordinary resolution of the investors. 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 II and is responsible for continuous disclosure and shareholder meetings of Pohutukawa II. The Directors of each Investment Company can be appointed or removed only by the limited partners.

The Manager is a 50/50 joint venture between Direct Capital IV Management Limited and Craigs Investment Partners Limited, 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, treasury management, administration, investor communication, and investment sourcing and divestment assistance. The Investment Committee of the Manager is responsible for all investment decisions.

The Pohutukawa II Board

The Board of Pohutukawa Private Equity II Limited (whose profiles follow) comprises four directors, two from Craigs Investment Partners and two independent directors, one of whom is Chairman. 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 the Pohutukawa fund.

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 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 and Horizon Energy Distribution Ltd.

MAURICE PRENDERGAST
(Independent Director)

Maurice brings international business experience with him along with a wealth of knowledge in logistics, technology, retail and global expansion. Maurice was previously a director of Pumpkin Patch Limited and CEO of Pumpkin Patch, a position he held from 1993 to 2011. Maurice has held executive positions in accounting, distribution and property development in both New Zealand and Australia. He is a director of Pohutukawa Private Equity II Limited; Industrial Lubricants and Services Limited and a number of other private companies. He was previously a director of Comvita Limited.

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 500 staff across 18 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, Karaka Private Equity, Matai Private Equity, Oriens Capital Ltd as well as Chairman of Comvita Ltd and director of a number of privately held companies.

MIKE CAIRD
(Non-Executive Director)

Mike was appointed as a director of Pohutukawa Private Equity II Limited in September 2013. Mike is also a director of Pohutukawa Private Equity V Ltd, Kowhai Private Equity, Karaka Private Equity, Matai Private Equity and the New Zealand Social Infrastructure Fund Limited. Mike joined Craigs Investment Partners in March 2009 as Head of Debt Capital Markets, and had been a Director of Craigs Investment Partners since 2001. Mike's career in financial markets includes 11 years with ABN AMRO, during which he was Head of Acquisition and Leveraged Finance for Australia and New Zealand and Head of Global Markets New Zealand, Brierley Investments Limited for 10 years and Ernst & Young for four years. Mike has previously been a Director of Hospital Car Parking Limited, McConnell Property Limited, Mangawhai Development Holdings Limited, AsiaPower Limited and Aetna Health (New Zealand) Limited. Mike is a director of the AMN Limited private group of companies involved in glass services, Just Plants Ltd group (indoor plant hire) and Signal Corporation Ltd (social media).

Committees

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 II and Pohutukawa II Management must respond to any recommendations made to their Boards from the Audit Committee.

There is no remuneration committee because Pohutukawa II and the Manager have no employees. The Chairman and Directors of Pohutukawa II receive director's fees from Pohutukawa II. 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's fees.

To the extent applicable and possible, the Board intends 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.

Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald
Maurice Prendergast
Neil Craig
Mike Caird

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

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