# Annual Report

## For the Year Ended 31 December 2015

Pohutukawa

PRIVATE EQUITY II LIMITED

# Contents



# Report to Shareholders

**April 2016**

**Dear Shareholder**

I am pleased to present Pohutukawa II's 2015 Annual Report. The report includes the financial statements for the financial year ended 31 December 2015 with commentary on the performances of our portfolio companies and their prospects for 2016.

### *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 2015. On 18 December 2014 the Board decided to cap the maximum amount to be called to 80 cents per share (cps), i.e. a reduction of 20 cps in total committed capital. Currently you have paid 62 cps with a further 18 cps to be called if required.

The realisation of our shareholding in Transaction Services Group in November 2015 was the first full realisation for Pohutukawa II, which has seven remaining investments at the end of 2015.

Subsequent to the end of the financial year, the remaining shares in Scales Corporation have also been realised. On 15 March 2016 it was announced that China Resources was acquiring 21,500,000 shares in Scales (representing 15.38% of the total shares in Scales) from Direct Capital Investments Limited. This included Pohutukawa II's remaining 2.8% shareholding. Settlement occurred 29 March 2016. There will be a distribution to Pohutukawa II shareholders of approximately 10.2 cps and this will be subject to a separate communication.

### *Portfolio Performance*

The realisation of our shareholding in Transaction Services was the highlight of 2015 with capital proceeds of $27.7 million realised from the sale. Pohutukawa II made a 35.05 cps distribution on 23 November 2015.

There were also some strong performances from a number of the portfolio companies, while market conditions made it difficult for others.

All portfolio companies are pursuing growth strategies. Hiway Group is experiencing strong levels of activity in New Zealand stabilisation work, particularly in Auckland for both road maintenance and residential sub-divisions and in Australia it has entered the roading market in Victoria and NSW; Cavalier Wool Holdings (CWH) and its domestic competitor have received a positive ruling from the Commerce Commission on their proposed merger. PF Olsen has seen improved export log market conditions and secured further forestry management contracts; Bayleys has continued to capture market share across its respective market segments; and Energyworks has improved performance in a continuing difficult market.

Comments on the individual portfolio company performances are provided from page 8 onwards.

### *Distributions to Shareholders*

During 2015 Pohutukawa II made gross distributions of $30.8 million, equivalent to 37.4 cps. Transaction Services contributed $27.7 million of this distribution.

From inception to the end of 2015 Pohutukawa II has made gross distributions totalling $57.4 million, equivalent to 69.6 cps. This means shareholders have now received the full return of their capital contribution of 62 cps.

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

*Table 1 - Summary of Investor Returns*

| **Investors Return to 31 December 2015** | | |
|---|---|---|
| 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 |
| **Gross Return** | | **$ 0.70** |
| Assessed Net Asset Value 31 December 2015* | | $ 0.34 |
| **Estimated Total Gross Return** | | **$ 1.04** |

** Includes provision for earnout.*

With the sale of Pohutukawa II's shareholding in Scales we expect to make a further distribution in the second quarter of 2016.

# Report to Shareholders

***Economic outlook for 2016***

The NZ/AU dollar and NZ/US dollar cross rates have tracked downwards from the very high levels seen a year ago. The respective rates at 31 March were NZ/AU 0.90 and NZ/US 0.69 (Bloomberg). A weaker NZ dollar does help our exporting company returns. The economic pointers for the New Zealand economy continue to be positive with expectations for continued low inflation and interest rates, and ongoing modest growth, although the dairy sector downturn will be a drag on economic growth.

## Portfolio Company Investments

The original investment cost of the current portfolio was $28 million as shown in *Table 2* below.

We made our last direct investment into Energyworks in 2014 for an amount of $5.2 million. There was a small follow-on investment of $85,906 made in PF Olsen during 2015.

***Investment Opportunities***

We will continue to support the portfolio companies with follow-on investment as required. We may also consider parallel investments complementary to the existing portfolio companies. No new follow-on or parallel investments are currently contemplated.

***Portfolio Weightings***

The portfolio company investments show a good spread across industry sectors. Hiway Group and Energyworks now represent our largest investment costs.

The investments (at cost) and cash weightings at 31 December 2015 are shown in *Chart 1*, while *Chart 2* shows the investment portfolio's industry sector weightings.

***Table 2 - Pohutukawa II Investments at cost to 31 December 2015***

| Portfolio Company | Date of initial Investment | Industry Sector | Investment Cost (NZ$000) | Pohutukawa II Shareholding % |
|---|---|---|---|---|
| Bayley Corporation | 21 June 2010 | Real estate | $3,575 | 7.4 |
| Cavalier Wool Holdings | 23 Dec 2010 | Agriculture | $3,336 | 6.0 |
| Scales Corporation | 22 July 2011 | Horticulture Services | $3,818 | 2.8 |
| George H Investments | 22 July 2011 | Property & Shares Investments | $3,818 | 9.6 |
| PF Olsen Group | 15 Sep 2011 | Forestry Services | $2,574 | 9.5 |
| Hiway Group | 30 Dec 2011 | Infrastructure | $5,716 | 14.3 |
| Energyworks Holdings | 31 Jan 2014 | Energy Services | $5,180 | 16.7 |
| **Total Investment Cost** | | | **$28,017** | |

# Report to Shareholders

*Chart 1 - Pohutukawa II investments at cost to 31 December 2015*

**Pohutukawa II Investments 31 December 2015**

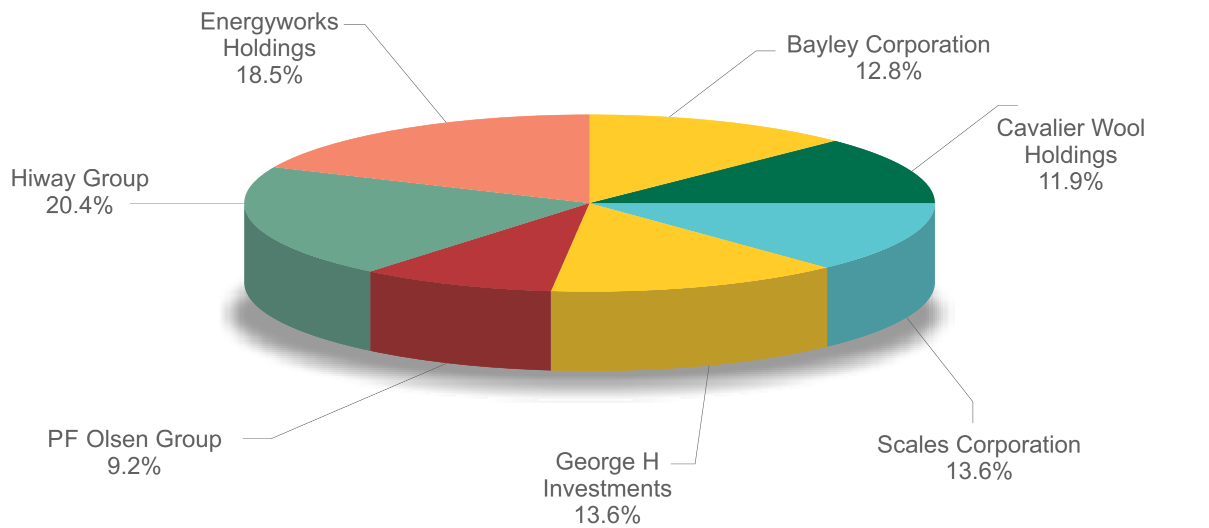
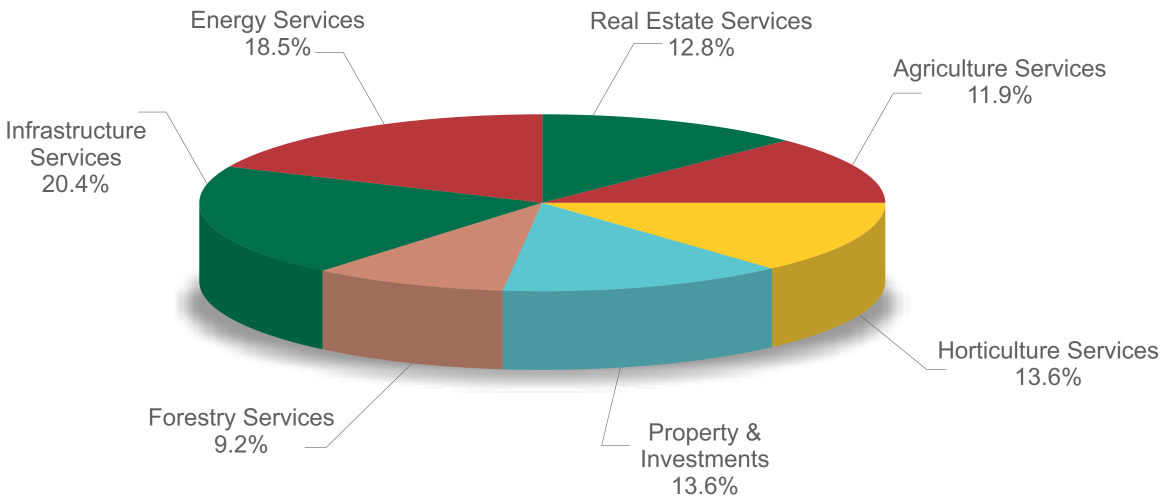



*Chart 2 - Industry sector exposure*

**Pohutukawa II Industry Sector Exposure 31 December 2015**




## Portfolio Company Investment Revaluations

The Manager revalues the portfolio company investments each quarter using the International Private Equity & Venture Capital valuation guidelines, with the exception of Scales Corporation which is a listed entity. Revaluations are completed for all portfolio companies and Scales is valued at its closing price on the last day of the quarter.

The portfolio was valued at $32.9 million at 31 December 2015 comparing favourably to the investment cost of $28 million. Shareholders have received distributions of $57.4 million. The portfolio performance to date has been very good.

# Report to Shareholders

## Annual Financial Statements 31 December 2015

Our financial statements for the year ended 31 December 2015, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December 2015 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At balance date shareholders' funds were $28.36 million, equivalent to a net asset backing of 34 cps. Pohutukawa II is in a strong financial position and at 31 December 2015 the Fund had no debt.

Assets comprised:

- Investments & loans $32.90 million
- Cash $4.11 million

The item non-controlling interest in the statement of financial position refers to the equity of the Investment Companies. These non-controlling interests are attributable to Pohutukawa II shareholders as a result of their preference shares held in the Investment Companies.

Income was derived from interest of $111,501 on our short-term deposits. Dividend income of $1.61 million was received from portfolio companies.

The investment portfolio was re-valued under the fair value method at 31 December 2015. There was a $4.58 million uplift in fair value of investments. The gain on sale of Transaction Services shares was $14.24 million.

Administrative expenses were $1.30 million (2014: $1.42 million). Of the total administrative expenses, management fees were $1.11 million (2014: $1.17 million) and directors fees $85,000.

As there is now more certainty that an earnout performance payment will be paid to entities associated with the manager a provision of $8.6 million has been provided for in the accounts this year. The earnout 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 pretax compound return of 8% per annum.

*Table 3 - Pohutukawa II Financial Performance Summary*

| **Pohutukawa II Financial Performance Summary**<br>For the year ended 31 December 2015 | | |
|---|---|---|
| | **2015**<br>**$000** | **2014**<br>**$000** |
| ***Operating Results*** | | |
| Interest income | 112 | 89 |
| Dividend income | 1,609 | 2,570 |
| Change in fair value of investments | 4,579 | 942 |
| Gain on sale of investments | 14,240 | 10,165 |
| Other income | | 68 |
| Administrative Expenses | (1,300) | (1,418) |
| Earnout provision | (8,607) | |
| Finance expenses | | (51) |
| Profit/Loss for the year | 10,633 | 12,364 |
| ***Share performance*** | | |
| Stapled Securities on issue | 82,500,000 | 82,500,000 |
| *Estimated Net Asset backing-cents per share | $0.34 | $0.42 |

** Includes provision for earnout*

The profit for the period was $10.63 million (2014: $12.36 million)

*Table 3* shows the Pohutukawa II Financial Performance Summary for the year ended 31 December 2015.

### *The Manager*

One of the roles of the Pohutukawa II Board is to review the Manager's performance. This review was undertaken for the 2015 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.

### *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. A further call of 5 cps was paid in June 2015.

There are no further calls envisaged in the medium term.

# Report to Shareholders

***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

As at 31 December 2015 the last sale price for Pohutukawa II shares was 30 cents while the net asset backing was 34 cps after allowing for earnout.

***Annual Shareholders Meeting***

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

**Date:** **Wednesday, 11 May 2016**
**Time:** **2.45pm**
**Place:** **Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland**
**RSVP** **By 2 May 2016. Contact Peter Lalor on 07 927 7927 or enquiries@pohutukawafund.co.nz**

We encourage you to attend both Pohutukawa I & II meetings and we look forward to seeing you there.

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 very pleased to report on the successful portfolio performance for the year ended 31 December 2015.

2015 was very positive for the portfolio which enabled two distributions to Pohutukawa II shareholders during the year, totalling gross distributions of 37.1 cps. The highlight of the year was the first full realisation within Pohutukawa II being the Transaction Services Group realisation and return of capital in November 2015. The subsequent distribution to shareholders allowed Pohutukawa II to distribute gross proceeds in excess of Contributed Capital – a significant milestone for the fund.

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

- Bayley's continues to look for expansion opportunities in the industry;
- Cavalier Wool has received approval from the Commerce Commission to merge with the wool scouring division of Lempriere;
- Scales is performing very well with strong indicators that the 2016 apple crop should be another high quality crop;
- Hiway Group has expanded into Victoria and NSW;
- PF Olsen continues expanding with new forestry management contracts;
- George H Investments is making good progress with initiatives to realise its various property assets;
- Energyworks has embarked on a large scale maintenance programme and increased its maintenance portfolio.

Each portfolio company and their individual prospects are highlighted in the company summaries that follow. Table 4 illustrates the portfolio ranking based on investment cost to 31 December 2015.

*Table 4 - Portfolio Companies ranked by investment cost*

| Company ranking based on investment size at 31 December 2015 | As a % of Portfolio |
|---|---|
| Hiway Group Limited | 20.4% |
| Energyworks Holdings Limited | 18.5% |
| Scales Corporation Limited | 13.6% |
| George H Investments Limited | 13.6% |
| Bayley Corporation Limited | 12.8% |
| Cavalier Wool Holdings Limited | 11.9% |
| PF Olsen Group Limited | 9.2% |
| | **100.0%** |

# 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/ succession | $3,575 | 7.4* |

* Total shareholding managed by Direct Capital 31%

### Background

Bayleys is a property services company operating nationally from 78 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

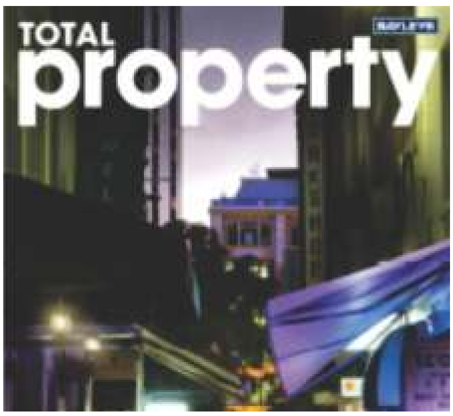
Bayleys recorded another year of impressive growth. The performance across the group has been pleasing with growth achieved in all areas, particularly in the residential, commercial and industrial brokerage divisions. Bayleys continues to expand its market share across various industry segments, most notably in residential where the business continues to experience good growth despite regulatory changes slowing industry volumes. Residential market share hit an all-time high in December 2015 and has doubled since the time of Pohutukawa's original investment.

The business continues transition into a fully integrated model, with Bayleys strong brokerage complemented by increasing contributions from asset management, valuation and consultancy, leasing, funds management, and diversified by location.

On the back of a strong performance the business made a number of fully imputed dividend distributions during the year.

### Outlook

Bayleys is well positioned to execute on a range of exciting growth initiatives ahead of the business in the current year.



# Manager's Report on Portfolio Companies

## CAVALIER WOOL HOLDINGS LIMITED

www.cavalierwoolscourers.co.nz

| Date of Investment | Industry Sector | Stage | Total Investment Cost $000 | Shareholding % |
|---|---|---|---|---|
| December 2010 | Wool scouring | Expansion | $3,336 | 6.0* |

* Total shareholding managed by Direct Capital 25.0%

**Background**
Cavalier Wool Holdings Limited (CWH) is one of two wool scouring businesses in New Zealand. Operating from sites in Napier and Timaru, CWH processes greasy wool on behalf of wool exporters and carpet makers, removing grease and contaminants to produce 'clean' wool ready for either local conversion into carpet, or export shipment. A major by-product is wool grease which is extracted and exported to global customers who further refine and convert it into lanolin, cholesterol and Vitamin D3, for use in cosmetic, pharmaceutical and food grade products.

**Performance**
Operating performance has been positive, with wool volumes exceeding both budget and prior year comparatives. Although prices for wool grease have experienced some volatility during the period, due to high levels of China stocks coming to market, the lower NZD has offset some of this price reduction. Accordingly, the company has exceeded expected earnings performance year to date.

The key strategic initiative is the merger with Wool Services International. During the period, the Commerce Commission confirmed its draft authorisation approving the proposed merger between the Company and the scouring business of Wool Services International. The decision has been appealed to the High Court, which will be heard in April 2016.

**Outlook**
Pending the merger of CWH with the scouring business of WSI, the company is well-placed to achieve the appropriate right sizing as a seller of NZ wool grease and enhance returns through the strategic relationships formed during the last 12 months.

# Manager's Report on Portfolio Companies

## SCALES CORPORATION LIMITED

www.scalescorporation.co.nz

| Date of Investment | Industry Sector | Stage | Total Investment Cost $000 | Shareholding % |
|---|---|---|---|---|
| July 2011 | Agri-Services | Buyout | $3,818 | 2.8* |

* Total shareholding managed by Direct Capital 18.05%

### Background

Scales is a large diverse and growing New Zealand agribusiness group. Its businesses are classified into three main operating divisions: (1) Storage & logistics – cold and bulk liquid storage, and logistics; (2) Horticulture – Mr Apple and a 50% interest in Fernridge Produce and (3) Food ingredients (juice concentrate and pet food).

On 25 July 2014 Scales Corporation listed on the NZX which involved Pohutukawa II reducing its shareholding from 9.6% to 2.8%. Because of the listed company nature, this commentary provides information which is available in the public domain.

### Performance

FY2015 financial results above both IPO forecast and FY2014:

- EBITDA $61.4 million, 49% ahead of IPO forecast and 54% above FY2014;
- Net profit for the year $38.9 million, 87% above IPO forecast and 112% above FY2014;
- FY2015 EPS 27.9cps (FY2014: 14.1cps)
- All divisions exceeded IPO forecast and FY2014 profit.

### Sale of residual shareholding

Subsequent to year end, on 15 March 2016 Scales announced the sale of 21,500,000 shares held by Direct Capital Investments Ltd (including Pohutukawa's 2.8% shareholding) to China Resources Ng Fung Ltd. Settlement occurred on 29 March 2016.

As a listed company Scales publishes its interim and annual reports which can be viewed at www.scalescorporation.co.nz under the Investors tab.

# Manager's Report on Portfolio Companies

## GEORGE H INVESTMENTS LIMITED

| Date of Investment | Industry Sector | Stage | Total Investment Cost $000 | Shareholding % |
|---|---|---|---|---|
| July 2011 | Agri-Services | Buyout | $3,818 | 9.6* |

* Total shareholding managed by Direct Capital 84.2%

**Background**

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

GHI's principal assets are:

- Three industrial parks (at Whakatu and Groome Place in Hawke's Bay and Silverstream in Mosgiel)
- A section on Canada Crescent, Christchurch.
- A 10.1% shareholding in NZX listed T&G Global Ltd (formerly Turners & Growers)

**Performance**

The subdivisions of the three industrial parks has progressed very well over the last twelve months, enabling the marketing of individual sites. Approximately $5m worth of property sales have now been agreed with various settlement dates during 2016 upon new new titles being issued.

During the year T&G Global reported a 52% increase in operating profit and paid a fully imputed 6 cps dividend. This shareholding continues to offer positive growth prospects.

**Outlook**

The ongoing aim of GHI is to continue to create value and liquidity for each strategic asset with any surplus cash to be returned to shareholders via capital distributions upon realisation.

# 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 | $2,574 | 9.5* |

* Total shareholding managed by Direct Capital 40.0%

### Background

PF Olsen is a professional provider of rural asset management services, managing over 300,000 hectares of timberlands and other rural assets across Australasia, and supervises the harvest of over 5.2 million tonnes of logs per annum. PF Olsen also offers health and safety compliance, environmental compliances, genetically improved seed and seedling sales, and advisory and other technical services.

### Performance

As with most commodities there was significant volatility in the log market during 2015, which muted the harvest programme for some PF Olsen clients. As a result the financial year end was slightly below expectation, which is regarded as a positive result given the turbulence impacting the forestry industry and other associated service providers during the year. A growing level of diversification and contracted asset management income helped to underpin the business and provide a degree of resilience to earnings during the year.

The business continues to invest in auditing systems and initiatives to lift Health and Safety standards across forestry contractor companies. The business also continues to invest in its IT systems and other infrastructure to help manage PF Olsen's expansion, which has attendant costs.

### Outlook

Strengthening in the international and domestic log markets coupled with a number of material new asset management contracts leave PF Olsen well positioned for continued earnings growth in 2016.

# Manager's Report on Portfolio Companies

## HIWAY GROUP LIMITED

www.hiwaygroup.co.nz

| Date of Investment | Industry Sector | Stage | Total Investment Cost $000 | Shareholding % |
|---|---|---|---|---|
| December 2011 | Infrastructure Services | Buyout | $5,716 | 14.3* |

* Total shareholding managed by Direct Capital 60.0%

### Background

Hiway Group is a leading roading and infrastructure services contractor, with operations in both New Zealand and Australia. Hiway Group operates through two main operating companies, Hiway Stabilizers and Hiway Geo Technical deploying a number of specialist technologies including deep soil mixing, soil nailing, aggregate modification, sub-grade stabilisation, fill drying and foamed bitumen recycling. The company also offers a number of environmental contracting services including soil recycling and site remediation.

### Performance

Trading for the December quarter and year to date remain slightly below budget but well ahead of the same period last year. The key features of the quarter were:

- Strong levels of activity in New Zealand stabilisation particularly in Auckland for both road maintenance and residential sub divisions;
- Strong seasonal maintenance work in Victoria Australia.

### Outlook

The business growth strategy looks to expand further to meet the forecast development work from new projects in New Zealand scheduled over the next three years. This will require funding into new plant and processing capacity to meet the forecast strong growth which covers both new roading projects and residential growth.

In Australia the business has continued to develop new market opportunities in Victoria and NSW. The business is focussed on leveraging the strong market position and key relationship the business has in the road maintenance sector.

# Manager's Report on Portfolio Companies

## ENERGYWORKS HOLDINGS LIMITED

www.energyworks.net.nz

| Date of Investment | Industry Sector | Stage | Total Investment Cost $000 | Shareholding % |
|---|---|---|---|---|
| December 2011 | Infrastructure Services | Buyout | $5,180 | 16.7* |

* Total shareholding managed by Direct Capital 70.0%

**Background**

Energyworks is New Zealand's leading provider of engineering solutions to the natural gas and petrochemical industry. The business provides essential maintenance and brownfield services to the onshore gas and petrochemical sector, as well as the fabrication and installation of mechanical components and associated infrastructure such as piping, wellheads, skids, and high pressure gas pipelines.

**Performance**

Activity in 2015 was weak as the energy sector globally struggled to adjust after a rapid decline in oil and gas prices, leading operators to cut back on capital expenditure. The situation resulted in lumpy levels of work requiring close management of resources however Energyworks continued to trade profitably albeit below expectation.

More recently there has been a marked ramp-up in activity largely centred on maintenance work. In addition to its long term permanent maintenance teams operating on client sites, Energyworks undertook a number of scheduled maintenance projects, ranging from large scale statutory work to a large number of small and medium sized maintenance projects. Trading over this period was both above expectation and the prior period.

Positively the business continues to grow into new sectors, undertaking brownfield modification and maintenance work on offshore platforms for the first time, and achieving steady growth in the industrial coatings side of its business.

**Outlook**

Whilst the business has a solid maintenance book into the first half of 2016 the short to medium outlook for project work and the broader energy sector remains inconsistent, and will require an ongoing close management of all resources.

# Directors' Report

**For the year ended 31 December 2015**

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

| | Director 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 2015***

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 2015**

(Directors holding office at 31 December 2015)

| 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 |
| Cavalier Wool Holdings Ltd | 3,963 | 3,963 | 1,567 | 2,089 |
| Scales Corporation Ltd | 35,075 | 35,074 | 12,378 | 23,487 |
| George H Investments | 43,389 | 43,387 | 15,312 | 29,054 |
| PF Olsen Group Ltd | 2,077 | 2,076 | 924 | 924 |
| Hiway Group Ltd - equity | 39,028 | 39,026 | 11,914 | 16,623 |
| Hiway Group Ltd - debt | 8,903 | 8,902 | 2,718 | 3,792 |
| Energyworks Holdings Ltd - equity | 52,699 | 52,699 | - | 30,000 |
| Energyworks Holdings Ltd - debt | 6,161 | 6,161 | - | 3,507 |

Director

*31 March 2016*

Date

Director

*31 March 2016*

Date

# Statement of comprehensive income

## For the year ended 31 December 2015

| | Note | Consolidated 2015 | Consolidated 2014 | Parent 2015 | Parent 2014 |
|---|---|---|---|---|---|
| Interest income | | 111,501 | 89,091 | 111,501 | 89,091 |
| Dividend income | | 1,608,863 | 2,569,644 | - | - |
| Advisory fee income | | - | 67,702 | - | 67,702 |
| Change in fair value of investments | | 4,579,057 | 941,632 | - | - |
| Gain on realisation of investments | | 14,240,059 | 10,164,629 | - | - |
| Impairment of loans to investment companies | *17(b)* | - | - | (2,285,150) | (4,707,486) |
| Reversal of impairment of loans to investment companies | *17(b)* | - | - | 188,761 | 737,947 |
| Other operating income | | - | - | 1,822,385 | 1,471,811 |
| Earnout expense | *16* | (8,606,764) | - | (8,606,764) | - |
| Administrative expenses | *5* | (1,299,807) | (1,417,538) | (1,299,807) | (1,417,538) |
| **Operating profit/(loss)** | | 10,632,909 | 12,415,160 | (10,069,074) | (3,758,473) |
| Finance expenses - interest | | - | (51,217) | - | (51,217) |
| **Profit/(loss) before tax** | | 10,632,909 | 12,363,943 | (10,069,074) | (3,809,690) |
| Income tax expense | *6* | - | - | - | - |
| **Profit/(loss) for the year** | | 10,632,909 | 12,363,943 | (10,069,074) | (3,809,690) |
| Other comprehensive income for the year | | - | - | - | - |
| **Total comprehensive income for the year** | | 10,632,909 | 12,363,943 | (10,069,074) | (3,809,690) |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | (7,972,685) | 159,849 | (10,069,074) | (3,809,690) |
| Non-controlling interest | *3a(iv)* | 18,605,594 | 12,204,094 | - | - |
| **Profit/(loss) and total comprehensive income/(deficit) for the year attributable to the equity holders of stapled securities** | | 10,632,909 | 12,363,943 | (10,069,074) | (3,809,690) |

# Statement of changes in equity

## For the year ended 31 December 2015

| Consolidated | *Note* | Share capital | Retained losses | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent | | | | |
| Balance at 1 January 2015 | | 35,048,542 | (5,509,460) | 29,539,082 | 14,035,290 | 43,574,372 |
| Total comprehensive income for the year | | - | (7,972,685) | (7,972,685) | 18,605,594 | 10,632,909 |
| Issue of share capital | | 4,125,000 | - | 4,125,000 | - | 4,125,000 |
| Redemption of share capital | *12* | (5,383,431) | - | (5,383,431) | - | (5,383,431) |
| Dividends paid | *12* | - | - | - | (24,588,075) | (24,588,075) |
| Balance at 31 December 2015 | | 33,790,111 | (13,482,145) | 20,307,966 | 8,052,809 | 28,360,775 |
| | | | | | | |
| Balance at 1 January 2014 | | 34,434,751 | (5,669,309) | 28,765,442 | 9,359,090 | 38,124,532 |
| Total comprehensive income for the year | | - | 159,849 | 159,849 | 12,204,094 | 12,363,943 |
| Issue of share capital | | 8,250,000 | - | 8,250,000 | - | 8,250,000 |
| Redemption of share capital | *12* | (7,636,209) | - | (7,636,209) | - | (7,636,209) |
| Dividends paid | *12* | - | - | - | (7,527,894) | (7,527,894) |
| Balance at 31 December 2014 | | 35,048,542 | (5,509,460) | 29,539,082 | 14,035,290 | 43,574,372 |

| Parent | | Share capital | Retained losses | Total equity |
|---|---|---|---|---|
| Balance at 1 January 2015 | | 35,048,542 | (10,700,939) | 24,347,603 |
| Total comprehensive income for the year | | - | (10,069,074) | (10,069,074) |
| Issue of share capital | | 4,125,000 | - | 4,125,000 |
| Redemption of share capital | *12* | (5,383,431) | - | (5,383,431) |
| Balance at 31 December 2015 | | 33,790,111 | (20,770,013) | 13,020,098 |
| | | | | |
| Balance at 1 January 2014 | | 34,434,751 | (6,891,249) | 27,543,502 |
| Total comprehensive income for the year | | - | (3,809,690) | (3,809,690) |
| Issue of share capital | | 8,250,000 | - | 8,250,000 |
| Redemption of share capital | *12* | (7,636,209) | - | (7,636,209) |
| Balance at 31 December 2014 | | 35,048,542 | (10,700,939) | 24,347,603 |

# Statement of financial position

## As at 31 December 2015

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | *Note* | 2015 | 2014 | 2015 | 2014 |
| **Assets** | | | | | |
| Loans to investment companies | *17(b)* | - | - | 12,850,325 | 18,456,267 |
| Receivables from investment companies | *17(b)* | - | - | 4,713,791 | 4,095,549 |
| Loans to portfolio companies | *9* | 1,325,560 | 1,325,560 | - | - |
| Investments – equity securities | *7(c)* | 31,579,226 | 40,453,012 | - | - |
| **Total non-current assets** | | 32,904,786 | 41,778,572 | 17,564,116 | 22,551,816 |
| Receivables and prepayments | *8* | 8,294 | 19,340 | 8,287 | 19,327 |
| Cash and cash equivalents | *11* | 4,106,687 | 1,829,728 | 4,106,687 | 1,829,728 |
| **Total current assets** | | 4,114,981 | 1,849,068 | 4,114,974 | 1,849,055 |
| **Total assets** | | 37,019,767 | 43,627,640 | 21,679,090 | 24,400,871 |
| **Equity** | | | | | |
| Issued capital | *12* | 33,790,111 | 35,048,542 | 33,790,111 | 35,048,542 |
| Retained losses | | (13,482,145) | (5,509,460) | (20,770,013) | (10,700,939) |
| **Total equity attributable to equity holders of the parent** | | 20,307,966 | 29,539,082 | 13,020,098 | 24,347,603 |
| **Non-controlling interest** | *3a(iv)* | 8,052,809 | 14,035,290 | - | - |
| **Total equity attributable to equity holders of stapled securities** | | 28,360,775 | 43,574,372 | 13,020,098 | 24,347,603 |
| **Liabilities** | | | | | |
| Trade and other payables | *13* | 52,228 | 53,268 | 52,228 | 53,268 |
| **Total current liabilities** | | 52,228 | 53,268 | 52,228 | 53,268 |
| Earnout provision | *16* | 8,606,764 | - | 8,606,764 | - |
| **Total current liabilities** | | 8,606,764 | 53,268 | 8,606,764 | 53,268 |
| **Total liabilities** | | 8,658,992 | 53,268 | 8,658,992 | 53,268 |
| **Total equity and liabilities** | | 37,019,767 | 43,627,640 | 21,679,090 | 24,400,871 |

For and on behalf of the Board

Director

*31 March 2016*

Date

Director

*31 March 2016*

Date

# Statement of cash flows

## For the year ended 31 December 2015

| | Note | Consolidated 2015 | Consolidated 2014 | Parent 2015 | Parent 2014 |
|---|---|---|---|---|---|
| **Cash flows from/(to) operating activities** | | | | | |
| Cash receipts from fees | | - | 67,702 | 1,204,143 | 1,396,081 |
| Dividends received | | 1,608,863 | 2,569,644 | - | - |
| Interest received | | 122,095 | 78,503 | 122,089 | 78,503 |
| Interest paid | | - | (51,217) | - | (51,217) |
| Cash paid to suppliers | | (1,300,395) | (1,408,406) | (1,300,395) | (1,408,406) |
| **Net cash from/(to) operating activities** | *14* | 430,563 | 1,256,226 | 25,837 | 14,961 |
| **Cash flows from /(to) investing activities** | | | | | |
| Acquisition of investments | | (85,906) | (5,503,639) | - | - |
| Realisations from investments | | 27,778,808 | 12,079,157 | - | - |
| Loans to portfolio companies | *9* | - | (1,325,560) | - | - |
| Loans to investment companies | | - | - | (85,906) | (6,829,199) |
| Repayments from investment companies | | - | - | 3,595,459 | 6,394,496 |
| **Net cash from /(to) investing activities** | | 27,692,902 | 5,249,958 | 3,509,553 | (434,703) |
| **Cash flows from /(to) financing activities** | | | | | |
| Proceeds from share calls | | 4,125,000 | 8,250,000 | 4,125,000 | 8,250,000 |
| Redemption of preference shares | *12* | (5,383,431) | (7,636,209) | (5,383,431) | (7,636,209) |
| Distributions to equity holders | *12* | (24,588,075) | (6,925,926) | - | - |
| **Net cash from/(to) financing activities** | | (25,846,506) | (6,312,135) | (1,258,431) | 613,791 |
| Net movement in cash and cash equivalents | | 2,276,959 | 194,049 | 2,276,959 | 194,049 |
| Cash and cash equivalents at 1 January | | 1,829,728 | 1,635,679 | 1,829,728 | 1,635,679 |
| **Cash and cash equivalents at 31 December** | *11* | 4,106,687 | 1,829,728 | 4,106,687 | 1,829,728 |

# 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 and the 12 (2014: 25) Investment Companies, refer Note 19, are registered under the Companies Act 1993 and are issuers and reporting entities for the purposes of the Financial Reporting Act 1993.

The consolidated financial statements of the Group for the year ended 31 December 2015 comprise the Company and 12 (2014: 25) 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 31 March 2016.

## 2. Basis of preparation

### (a) Statement of compliance

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

The Financial Markets Conduct Act 2013 ("FMC Act") came into effect on 1 April 2014, where most existing issuers will become FMC reporting entities. The Financial Reporting Act 1993 will continue to apply to unlisted issuers during the transitional period (which ends on 1 December 2016), unless an opt-in or trigger event occurs before 1 December 2016, at which time the Financial Reporting Act 2013 and FMC Act will apply. Management do not expect the adoption of the Financial Reporting Act 2013 and FMC Act will materially impact the Group.

In addition to the change in legislation, the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial reporting standards to be applied to entities with statutory reporting obligations. The Company and Group are currently reporting under NZ IFRS. Under the new XRB framework management expects that the Company will continue to apply NZ IFRS as applicable for tier 1 for-profit entities. Management expects that this will have no material impact on the preparation and disclosures included in the financial statements.

### (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.

These financial statements are for the year ended 31 December 2015.

### (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.

# Notes to the consolidated financial statements

## 2. Basis of preparation (continued)

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

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 15 – Financial risk management
- Note 16 – Earnout provision
- Note 17(b) – Transactions with related parties

## 3. Significant accounting policies

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

### (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 (2014: 25) 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 for the purpose of preparing consolidated financial statements. The 12 (2014: 25) 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) Non-controlling interest*

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

### (b) Investments in equity securities

The Group's investments in equity securities are designated at fair value through profit or loss financial assets, 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. That is 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 amortised fair value and subsequently measured at amortised cost less impairment losses (see accounting policy 3(g)).

# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### (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 or its cash-generating unit 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.

### (h) Share capital
*(i) Ordinary share capital*

Share capital is recognised as paid in capital when a call has been made to shareholders. Calls are made in tranches and will be for a minimum 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) Services rendered*

Revenue from services rendered (e.g. 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.

# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

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

The following new or revised standard is not effective for the period ended 31 December 2015, 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 Company 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.

### (n) Goods and services tax (GST)

All amounts are shown exclusive of GST, except for receivables and payables that are stated inclusive of GST.

## 4. Determination of fair values

Investments in unlisted equity securities are valued at 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 ensure compliance with NZ IFRS 13. Valuations are performed by Direct Capital IV Management Limited (see Notes 7, 17). 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.

# Notes to the consolidated financial statements

## 5. Administrative expenses

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Management fees | 1,108,611 | 1,168,744 | 1,108,611 | 1,168,744 |
| Directors' fees | 85,000 | 85,000 | 85,000 | 85,000 |
| Other administrative expenses | 106,196 | 163,794 | 106,196 | 163,794 |
| | 1,299,807 | 1,417,538 | 1,299,807 | 1,417,538 |

The following items of expenditure are included in administrative expenses:

| | | | | |
|---|---|---|---|---|
| Auditor's remuneration to KPMG comprises: | | | | |
| Audit of financial statements | 30,554 | 29,000 | 30,554 | 29,000 |
| Review of interim financial statements | 7,245 | 11,968 | 7,245 | 11,968 |

## 6. Income tax expense

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | *Note* | 2015 | 2014 | 2015 | 2014 |
| Income tax expense in statement of comprehensive income | | - | - | - | - |

**Reconciliation of effective tax rate**

| | | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|---|
| Profit/(Loss) before tax | | 10,632,909 | 12,363,943 | (10,069,074) | (3,809,690) |
| Income tax expense at 28%tax rate | | 2,977,215 | 3,461,904 | (2,819,341) | (1,066,713) |
| Non-deductible expenses | | 3,615,125 | 3,933,606 | 2,997,199 | 1,168 |
| Non-assessable income | | (6,474,268) | (7,043,359) | | 1,111,471 |
| Imputation credits received | | (450,482) | (719,500) | - | - |
| Tax losses not recognised /(forgone) | *10* | 332,410 | 367,359 | (177,858) | (45,926) |
| Total income tax expense in statement of comprehensive income | | - | - | - | - |

**Imputation credits**

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | *Note* | 2015 | 2014 | 2015 | 2014 |
| Imputation credits available to shareholders of the parent company: | | | | | |
| Through the parent company | | - | - | - | - |
| Through investment companies | | 140,176 | 367,220 | - | - |
| | | 140,176 | 367,220 | - | - |

# Notes to the consolidated financial statements

## 7. Investments – equity securities

### (a) Non-current investments

The Group has six 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 profit or loss. As 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 ensure 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 Group also holds shares in a listed equity security. The valuation of the listed equity securities is calculated using the closing bid share price at the close of trading on the last day of the year.

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. The cost of each acquisition is shown in the tables.

**2015**

| Entity name | Activities | Acquisition date | Voting interest | Cost |
|---|---|---|---|---|
| Bayley Corporation Limited | Real Estate Services | Jun 2010 | 7.4% | 3,574,666 |
| Cavalier Wool Holdings Limited | Agri-services | Dec 2010 | 6.0% | 3,336,366 |
| Scales Corporation Limited | Agri-services | Jul 2011 | 2.8% | 1,301,608 |
| George H Investments Limited | Agri-services | Jul 2011 | 9.6% | 3,818,105 |
| PF Olsen Group Limited | Forestry management | Sept 2011 | 9.5% | 2,573,526 |
| Hiway Group Limited | Roading and ground stabilisation | Dec 2011 | 14.3% | 3,437,897 |
| Energyworks Holdings Limited | Pipeline services | Jan 2014 | 16.7% | 4,637,533 |
| | | | | 22,679,701 |

**2014**

| Entity name | Activities | Acquisition date | Voting interest | Cost |
|---|---|---|---|---|
| Transaction Services Group Limited | 3rd Party Payment Processing | Jan 2010 | 11.5% | 4,831,332 |
| Bayley Corporation Limited | Real Estate Services | Jun 2010 | 7.4% | 3,574,666 |
| Cavalier Wool Holdings Limited | Agri-services | Dec 2010 | 6.0% | 3,336,366 |
| Scales Corporation Limited | Agri-services | Jul 2011 | 3.0% | 1,301,608 |
| George H Investments Limited | Agri-services | Jul 2011 | 9.6% | 3,818,105 |
| PF Olsen Group Limited | Forestry management | Sept 2011 | 9.5% | 2,487,620 |
| Hiway Group Limited | Roading and ground stabilisation | Dec 2011 | 14.3% | 3,437,897 |
| Energyworks Holdings Limited | Pipeline services | Jan 2014 | 16.7% | 4,637,533 |
| | | | | 27,425,127 |

# 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 $617,021 (2014: $1,077,101). A movement in the downward adjustment factor of 5% changes the value of the investments by $1,896,567 (2014: $2,323,233). A movement in the maintainable earnings of 5% changes the value of the investments by $1,027,058 (2014: $2,181,493). A movement in the bid price of listed equities of 5% changes the value of the investments by $587,138 (2014: $869,487).

### (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 2015 was $31,579,226 (2014: $40,453,012).

## 8. Receivables and prepayments

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| GST receivable | 1,321 | 1,773 | 1,321 | 1,773 |
| Interest receivable | - | 10,588 | - | 10,588 |
| Other receivables | 7 | 13 | - | - |
| Prepayments | 6,966 | 6,966 | 6,966 | 6,966 |
| | 8,294 | 19,340 | 8,287 | 19,327 |

As at 31 December 2015, no receivables are considered past due (2014: $nil).

## 9. Loans to Portfolio Companies

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Hiway Group Limited | 783,402 | 783,402 | - | - |
| Energyworks Holdings Limited | 542,158 | 542,158 | - | - |
| | 1,325,560 | 1,325,560 | - | - |

# Notes to the consolidated financial statements

## 9. Loans to Portfolio Companies (continued)

### Hiway Group Limited

Hiway Group Limited (investment held by Pohutukawa Zeta Limited) was advanced $783,402 in December 2014 as a loan pro-rated with all other shareholders. The current interest rate is 0.0% (2014: 0.0%). The terms of the loan enable Hiway Group Limited, at its option, to capitalise the loan and interest into equity in December 2019.

### Energyworks Holdings Limited

Energyworks Holdings Limited (investment held by Pohutukawa Eta Limited) was advanced $542,158 in August 2014 as a loan pro-rated with all other shareholders. The current interest rate is 0.0% (2014:0.0%).

## 10. Deferred tax assets and liabilities

### Unrecognised deferred tax assets

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

| | *Note* | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| Opening balance 1 January | | 2,955,194 | 2,482,581 | 1,370,690 | 1,416,616 |
| Prior period adjustments | | (2,311) | 103,254 | (9,098) | |
| Tax losses not recognised | 6 | 332,410 | 367,359 | - | - |
| Tax losses forgone | 6 | - | - | (177,858) | (45,926) |
| Closing balance 31 December | | 3,285,293 | 2,955,194 | 1,183,734 | 1,370,690 |

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.

# Notes to the consolidated financial statements

## 11. Cash and cash equivalents

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Call deposits | 4,106,687 | 429,728 | 4,106,687 | 429,728 |
| Short-term deposits | - | 1,400,000 | - | 1,400,000 |
| Cash and cash equivalents in the statement of cash flows | 4,106,687 | 1,829,728 | 4,106,687 | 1,829,728 |

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate for 2015 on call deposits was 3.20% (2014: 3.64%).

Short-term deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited.  The weighted average interest rate on short-term deposits was 4.13% (2014: 3.96%).

## 12. Share capital

### Share capital

| **Consolidated** | Investment Co's Preference shares | | PPE II Ordinary shares | | PPE II Preference shares | |
|---|---|---|---|---|---|---|
| ***In millions of shares*** | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| On issue at 1 January | 2,062.5 | 2,062.5 | 82.5 | 82.5 | 7,053 | 7,817 |
| Cancellation of shares | (1,072.5) | - | - | - | - | - |
| Redemption of shares | - | - | - | - | (538) | (764) |
| On issue at 31 December | 990.0 | 2,062.5 | 82.5 | 82.5 | 6,515 | 7,053 |

### Parent

| | Ordinary shares | | Preference shares | |
|---|---|---|---|---|
| ***In millions of shares*** | 2015 | 2014 | 2015 | 2014 |
| On issue at 1 January | 82.5 | 82.5 | 7,053 | 7,817 |
| Redemption of shares | - | - | (538) | (764) |
| On issue at 31 December | 82.5 | 82.5 | 6,515 | 7,053 |

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

At 31 December 2015, the share capital of the Company comprised 82,500,000 ordinary shares (2014: 82,500,000), and 6,514,821,400 preference shares (2014: 7,053,164,500). In addition, there are 990,000,000 (2014: 2,062,500,000) preference shares in the 12 (2014: 25) 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 was a call dated 29 May 2015 of $0.05.  Subsequent calls will be in tranches and subject to 30 days advance notice.

# Notes to the consolidated financial statements

## 12. Share capital (continued)

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 $14.850 million (2014: $0.23 per share totalling $18.975 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 $24,588,075 ($0.298 cents per share) were declared during the year by companies within the Group (2014: $7,527,894, $0.091 cents 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.

## 13. Trade and other payables

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Trade payables and accrued expenses | 52,228 | 53,268 | 52,228 | 53,268 |
| | 52,228 | 53,268 | 52,228 | 53,268 |

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

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Profit / (loss) for the year | 10,632,909 | 12,363,943 | (10,069,074) | (3,809,690) |
| Adjustments for: | | | | |
| Change in fair value of investments | (4,579,057) | (941,632) | 2,096,389 | 3,969,539 |
| Gain on realisation of investment | (14,240,059) | (10,164,629) | - | - |
| Change in trade and other receivables | 11,046 | (5,092) | (607,202) | (5,092) |
| Change in trade payables and accruals | (1,040) | 3,636 | (1,040) | (139,796) |
| Change in earnout provision | 8,606,764 | - | 8,606,764 | - |
| Net cash flow to/(from) operating activities | 430,563 | 1,256,226 | 25,837 | 14,961 |

# Notes to the consolidated financial statements

## 15. 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, short-term deposits and loans and borrowings. The Group earns interest on 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.

Loans between the parent and investment companies are interest free and due on demand. While these loans are payable on demand, they are not expected to be called within the next 12 months and are therefore classified as non-current.

### 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 for 2015 is 3.20% (2014: 3.80%), and for short-term deposits the effective rate is not applicable (2014: 4.12%).

Bank balances reprice daily and short-term deposits reprice within 3 months.

### 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

## 15. Financial risk management (continued)

### Interest rate risk – repricing analysis

| | *Note* | Total | Non interest bearing | 6 months or less |
|---|---|---|---|---|
| **Consolidated 2015** | | | | |
| Cash and cash equivalents | *11* | 4,106,687 | - | 4,106,687 |
| **Total** | | 4,106,687 | - | 4,106,687 |
| **Consolidated 2014** | | | | |
| Cash and cash equivalents | *11* | 1,829,728 | - | 1,829,728 |
| **Total** | | 1,829,728 | - | 1,829,728 |
| **Parent 2015** | | | | |
| Cash and cash equivalents | *11* | 4,106,687 | - | 4,106,687 |
| **Total** | | 4,106,687 | - | 4,106,687 |
| **Parent 2014** | | | | |
| Cash and cash equivalents | *11* | 1,829,728 | - | 1,829,728 |
| **Total** | | 1,829,728 | - | 1,829,728 |

Loans to investment and 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 $0.80 share capital (2014: $0.57 per share). The remaining $0.18 (2014: $0.23) 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

## 15. Financial risk management (continued)

### Classification and fair values

| | Note | Designated at fair value | Loans and receivables | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **Consolidated 2015** | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 11 | - | 4,106,687 | - | 4,106,687 | 4,106,687 |
| Receivables | 8 | - | 1,328 | - | 1,328 | 1,328 |
| Investments – unlisted equity securities | 7(c) | 31,579,226 | - | - | 31,579,226 | 31,579,226 |
| Loans to portfolio companies | 9 | - | 1,325,560 | - | 1,325,560 | 1,325,560 |
| **Total assets** | | 31,579,226 | 5,433,575 | - | 37,012,801 | 37,012,801 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Trade and other payables | 13 | - | - | 52,228 | 52,228 | 52,228 |
| **Total liabilities** | | - | - | 52,228 | 52,228 | 52,228 |

| | Note | Designated at fair value | Loans and receivables | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **Consolidated 2014** | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 11 | - | 1,829,728 | - | 1,829,728 | 1,829,728 |
| Receivables | 8 | - | 1,786 | - | 1,786 | 1,786 |
| Investments – unlisted equity securities | 7(c) | 40,453,012 | - | - | 40,453,012 | 40,453,012 |
| Loans to portfolio companies | 9 | - | 1,325,560 | - | 1,325,560 | 1,325,560 |
| **Total assets** | | 40,453,012 | 3,157,074 | - | 43,610,086 | 43,610,086 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Trade and other payables | 13 | - | - | 53,268 | 53,268 | 53,268 |
| **Total liabilities** | | - | - | 53,268 | 53,268 | 53,268 |

# Notes to the consolidated financial statements

## 15. Financial risk management (continued)

### Classification and fair values

| | *Note* | Designated at fair value | Loans and receivables | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **Parent 2015** | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | *11* | - | 4,106,687 | - | 4,106,687 | 4,106,687 |
| Loans to investment companies | *17(b)* | - | 12,850,325 | - | 12,850,325 | 12,850,325 |
| Receivables | | - | 4,715,112 | - | 4,715,112 | 4,715,112 |
| **Total assets** | | - | 21,672,124 | - | 21,672,124 | 21,672,124 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Trade and other payables | *13* | - | - | 52,228 | 52,228 | 52,228 |
| **Total liabilities** | | - | - | 52,228 | 52,228 | 52,228 |

| | *Note* | Designated at fair value | Loans and receivables | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **Parent 2014** | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | *11* | - | 1,829,728 | - | 1,829,728 | 1,829,728 |
| Loans to investment companies | *17(b)* | - | 18,456,267 | - | 18,456,267 | 18,456,267 |
| Receivables | | - | 4,107,910 | - | 4,107,910 | 4,107,910 |
| **Total assets** | | - | 24,393,905 | - | 24,393,905 | 24,393,905 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Trade and other payables | *13* | - | - | 53,268 | 53,268 | 53,268 |
| **Total liabilities** | | - | - | 53,268 | 53,268 | 53,268 |

# Notes to the consolidated financial statements

## 15. Financial risk management (continued)

### 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 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments in listed equity securities | 9,605,867 | - | - | 9,605,867 |
| Investments in unlisted equity securities | - | - | 21,973,359 | 21,973,359 |

| 31 December 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments in listed equity securities | - | 4,990,364 | - | 4,990,364 |
| Investments in unlisted equity securities | - | - | 35,462,648 | 35,462,648 |

The investment held by Pohutukawa Delta Limited in a listed equity security (Scales Corporation) has been moved from Level 2 to Level 1 during the year, due to the removal of an escrow discount in the previous valuation.

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 | 2015 | 2014 |
|---|---|---|
| Opening balance | 35,462,648 | 36,524,238 |
| Total gains: | | |
| In profit or loss | (36,444) | 941,632 |
| In other comprehensive income | - | - |
| Transfer to Level 2 | - | (4,990,364) |
| Investments at cost during the year | 85,906 | 5,503,639 |
| Capital returns | (13,538,751) | (2,516,497) |
| **Closing balance** | **21,973,359** | **35,462,648** |

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

| Investments | 2015 | 2014 |
|---|---|---|
| Total gains included in profit or loss for the year | 18,819,116 | 11,106,261 |
| Total gains for the year included in profit or loss for assets held at the end of the reporting period | 4,579,057 | 941,632 |

# Notes to the consolidated financial statements

## 15. Financial risk management (continued)

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 for sensitivity analysis with regards to the earnings multiple or adjustment factor.

## 16. Provisions

**Earnout Payment**

In accordance with clause 11 of the Prospectus entities associated with the Manager are entitled to an earnout payment 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 2015 the estimated earnout payment is calculated at $8,606,764. This calculation is based on unrealised portfolio company fair value valuations of $31,579,226 and loans receivable of $1,325,560 being fully recovered. A provision has been recognised as there is more certainty that an earnout payment will be paid or payable.

## 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. The apportionment of the management fee and any earnout fee reflect the relative contributions of each party. 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 $1,108,611 (2014: $1,168,744).
- No legal and accounting expenses were incurred in 2015 in relation to investment activity by Direct Capital IV Management Limited (2014: $4,082). These costs are reimbursed by Pohutukawa Private Equity II Limited.
- Call deposits of $4,106,687 (2014: $429,728) are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- No surplus cash (2014: $1,400,000) has been invested with the ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Receivables from Investment Companies were $4,713,791 at the end of the year (2014: $4,095,549).
- Loans advanced to Investment Companies (see below).

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.

# Notes to the consolidated financial statements

## 17. Related parties (continued)

### b) Transactions with related parties (continued)

During the year further loans were advanced by the parent to Investment Companies and taking the total to $20,138,193 as at December 2015 (2014: $23,647,746). Loans to Investment Companies are non-interest bearing, and are used to acquire long-term equity investments. Loans are repayable on demand. Impairment on loans has been partially reversed in the parent financial statements in the current year, where the value of the investment held by the investment companies is no longer less than the cost of the investment. This does not affect the consolidated financial statements.

### c) Transactions with key management personnel

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Directors fees (total remuneration) | 85,000 | 85,000 | 85,000 | 85,000 |

The balance owing to key management personnel at 31 December 2015 is $21,250 (2014: $21,250).

## 18. Subsequent events

On 15 March 2016 Direct Capital Investments Limited entered a conditional agreement to sell a 15.38% shareholding in Scales Corporation Limited (including the 2.8% shareholding of Pohutukawa Delta Limited) to China Resources Ng Fung Limited for $2.60 per share. The sale was settled on 29 March 2016.

# Notes to the consolidated financial statements

## 19. Group entities

### Investment Companies

| | Country of incorporation | Ownership interest* 2015 | 2014 |
|---|---|---|---|
| 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% |
| Pohutukawa Nu Limited ("Nu")** | New Zealand | - | 0% |
| Pohutukawa Xi Limited ("Xi") ** | New Zealand | - | 0% |
| Pohutukawa Omicron Limited ("Omicron") ** | New Zealand | - | 0% |
| Pohutukawa Pi Limited ("Pi") ** | New Zealand | - | 0% |
| Pohutukawa Rho Limited ("Rho") ** | New Zealand | - | 0% |
| Pohutukawa Sigma Limited ("Sigma") ** | New Zealand | - | 0% |
| Pohutukawa Tau Limited ("Tau") ** | New Zealand | - | 0% |
| Pohutukawa Upsilon Limited ("Upsilon") ** | New Zealand | - | 0% |
| Pohutukawa Phi Limited ("Phi") ** | New Zealand | - | 0% |
| Pohutukawa Chi Limited ("Chi") ** | New Zealand | - | 0% |
| Pohutukawa Psi Limited ("Psi") ** | New Zealand | - | 0% |
| Pohutukawa Omega Limited ("Omega") ** | New Zealand | - | 0% |
| Pohutukawa Alpha-Pi Limited ("Alpha-Pi") ** | New Zealand | - | 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.
**These companies were wound up during 2015, all preference shares were cancelled and each company was removed from the Companies Office register.

# Independent auditor's report

KPMG

**To the shareholders of Pohutukawa Private Equity II Limited**

**Report on the company and group financial statements**

We have audited the accompanying financial statements of Pohutukawa Private Equity II Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 16 to 37. The financial statements comprise the statements of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the 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 company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

***Directors' responsibility for the company and group financial statements***

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

***Auditor's responsibility***

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

**Opinion**

In our opinion the financial statements on pages 16 to 37:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the company and the group as at 31 December 2015 and of the financial performance and cash flows of the company and the group for the year then ended.

**Report on other legal and regulatory requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Pohutukawa Private Equity II Limited as far as appears from our examination of those records.

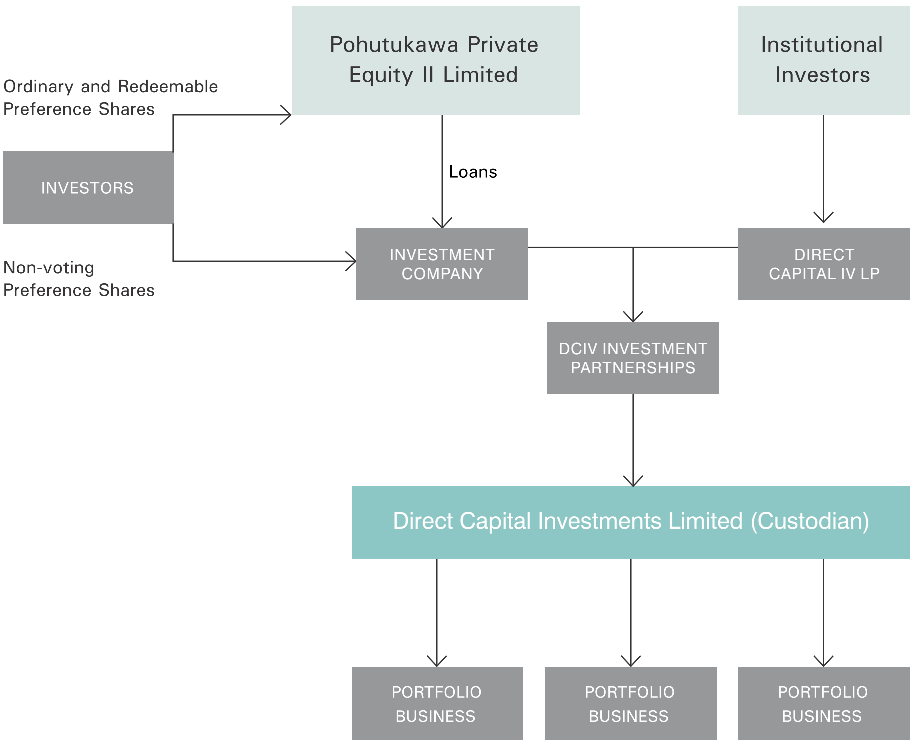
KPMG

31 March 2016
Tauranga

# 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 intends to co-invest 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 ensure that the shareholders' interests are held paramount. 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. Current members of the Investment Committee are Maurice Prendergast, Mark Hutton, Ross George, Tony Batterton, Travis Sydney, Neil Craig and Mike Caird.

# 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 Horizon Energy Distribution Limited, and he is Chairman of both Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited. John was previously a director of Air New Zealand for 9 years.

### 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 Limited; 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 Chairman of Craigs Investment Partners, a leading full service NZX Participant Firm. Craigs Investment Partners has approximately 370 staff with 16 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 a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited, as well as being Chairman of NZX Listed Comvita Limited. He is Chairman of Tauranga based angel investment group Enterprise Angels Inc., AGInvest Holdings Limited and a director of a number of privately held companies.

**MIKE CAIRD**
***(Non-Executive Director)***

Mike was appointed as a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited in September 2013. 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, a director of Signal Corporation Limited, Wilson HTM Limited, and a director of the New Zealand Social Infrastructure Fund Limited.

# 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.**

### OFFICES OF POHUTUKAWA

Pohutukawa Private Equity II Limited
Craigs Investment Partners House
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Email: enquiries@pohutukawafund.co.nz

### MANAGER

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### INVESTMENT MANAGER

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### AUDITORS

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### SHARE REGISTRY

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### SOLICITORS

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