Annual Report

For the Year Ended 31 December 2017

Pohutukawa

PRIVATE EQUITY II LIMITED

Contents

Report to Shareholders

April 2018

Dear Shareholder

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

Pohutukawa II Fund

Pohutukawa II offer raised $82.5 million of Committed Capital in February 2009. Pohutukawa II co-invests with the Direct Capital IV Fund which together totals $325 million. Pohutukawa II has called $51.1 million to the end of the financial year 31 December 2017. 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.

Portfolio Performance

Pohutukawa II has five remaining investments at the end of 2017.

Hiway Group - is experiencing strong levels of activity in New Zealand stabilisation work requiring further investment in stabiliser machines. Positive progress continues in Australia. In Victoria, the company completed the acquisition of a small micro-stabilisation business.

PF Olsen - its full year result (for their December financial year) was up on the prior year, in line with expectations, and its strongest full year performance. New Zealand operations continue to trade well, achieving growth on the prior year.

Cavalier Wool Holdings - the North Island restructure was completed with the closure of the Napier based, Whakatu plant. This was completed on time and on budget. The Awatoto plant is now operating at maximum capacity 24x7.

Bayleys - The property market continues to cool, particularly in Auckland residential. Notwithstanding the industry slowdown Bayleys continues to expand its marketshare and is on track for its second best financial performance since being founded in 1973.

George H Investments - The residual property assets of GHI are being realised.

Energyworks - Our investment in Energyworks Limited was realised through the transfer of our shareholding to the other majority shareholder.

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

Distributions to Shareholders

During 2017 Pohutukawa II made gross distributions of $3.3 million, equivalent to 4.0 cps. This comprised capital returns of $1.2 million from PF Olsen, George H Investments and Hiway Group, with the remainder of the distributions by way of gross dividends.

From inception to the end of 2017 Pohutukawa II has made gross distributions totalling $72.3 million, equivalent to 87.7 cps. This means shareholders have now received 25.7 cps over their original capital contribution of 62 cps, before realisation of the remaining portfolio. Including the remaining portfolio at valuation, this represents a net internal rate of return after earn out of 16.0% per annum to 31 December 2017.

Report to Shareholders

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

Table 1 - Summary of Investor Returns

Investors Return to 31 December 2017		
Total capital paid	$ 0.62	
Gross Return to Investors		
September 2011		$ 0.02
September 2012		$ 0.04
May 2013		$ 0.03
November 2013		$ 0.04
May 2014		$ 0.04
August 2014		$ 0.16
April 2015		$ 0.02
November 2015		$ 0.35
April 2016		$ 0.10
November 2016		$ 0.04
June 2017		$0.02
December 2017		$0.02
Gross Return		$ 0.88
Assessed Net Asset Value 31 December 2017*		$ 0.27
Estimated Total Gross Return		$ 1.15

** Includes provision for earn out.*

Portfolio Company Investments

The original investment cost of the remaining portfolio has decreased from $19.1 million to $14.2 million. This resulted from returns of initial capital from Hiway, George H Investments and PF Olsen, togetherwith recognising the loss on sale of Energyworks. See *Table 2* below.

Investment Opportunities

A small follow-on investment was completed during the year into PF Olsen Group. 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.

Portfolio Weightings

The investments (at cost) and cash weightings at 31 December 2017 are shown in *Chart 1*, while *Chart 2* shows the investment portfolio's industry sector weightings at cost (excluding cash).

Table 2 - Pohutukawa II Investments at cost to 31 December 2017

Portfolio Company	Date of initial Investment	Industry Sector	Current Investment Cost (NZ$000's)	Pohutukawa II Shareholding %
Bayley Corporation	21 June 2010	Real Estate Services	$3,575	7.4
Cavalier Wool Holdings	23 Dec 2010	Agri Services	$3,336	3.3
George H Investments	22 July 2011	Investment Assets	$1,042	9.4
PF Olsen Group	15 Sep 2011	Forestry Services	$2,475	9.5
Hiway Group	30 Dec 2011	Infrastructure	$3,785	14.3
Total Investment Cost			**$14,213**	

Report to Shareholders

Chart 1 - Pohutukawa II investments at cost to 31 December 2017

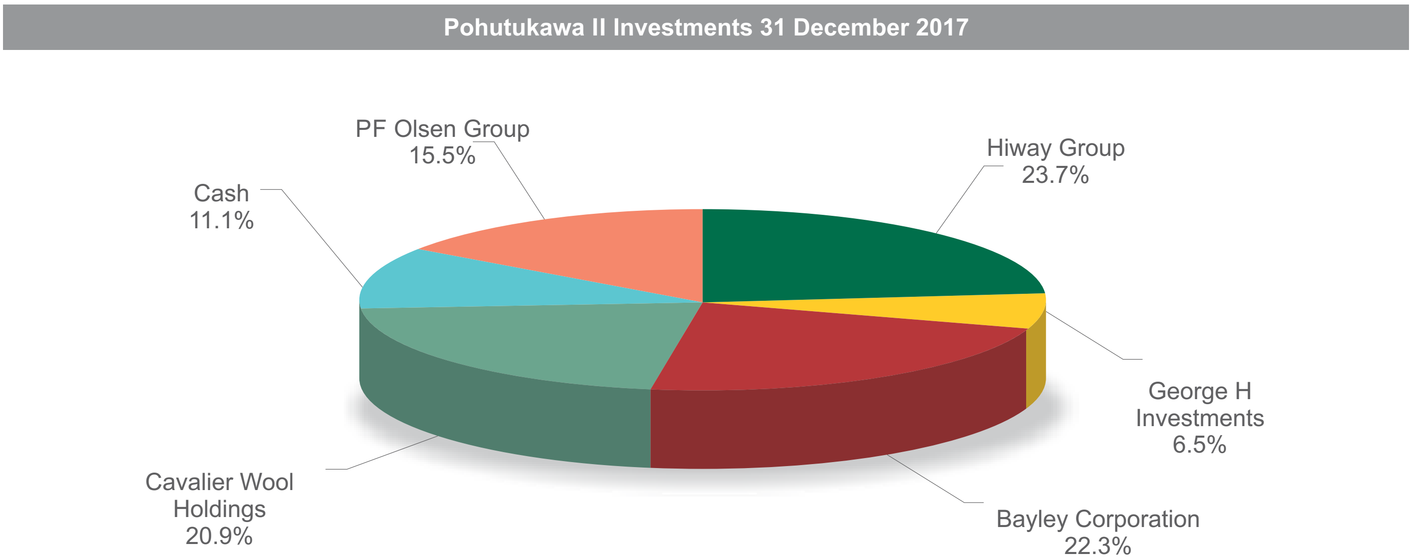
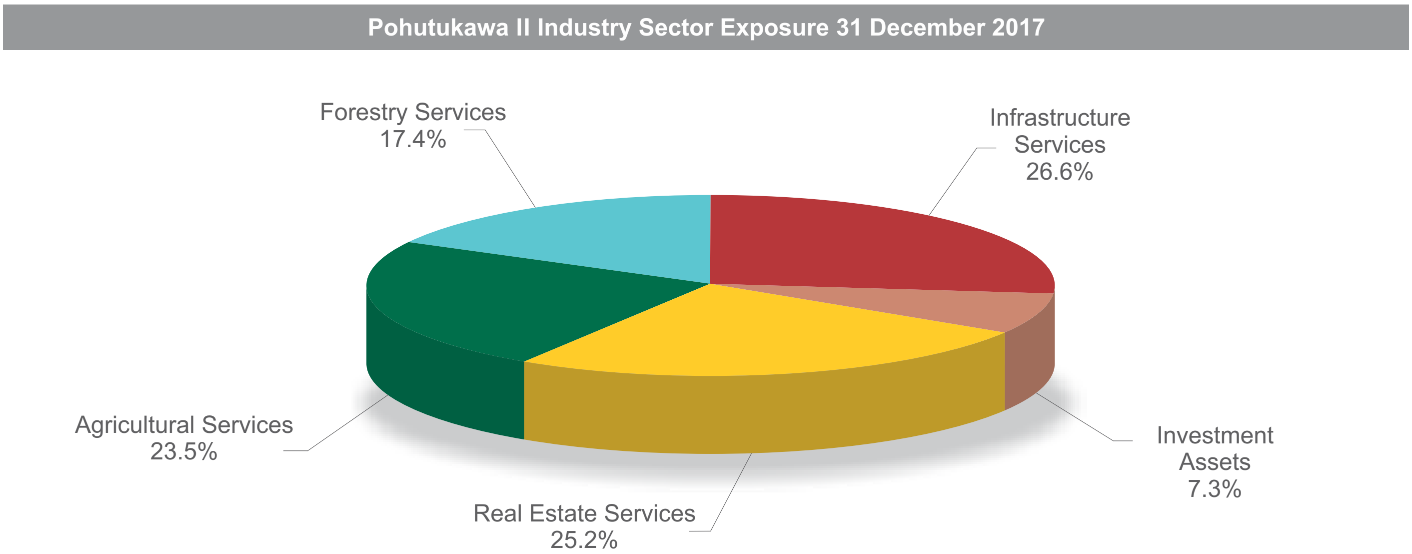


Chart 2 - Pohutukawa II Industry sector exposure at cost



Portfolio Company Investment Revaluations

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

The portfolio was valued at $26.1 million at 31 December 2017 compared to the net investment cost of $14.2 million. Shareholders have received gross distributions of $72.3 million. This represents a net internal rate of return after earn out of 16.0% to 31 December 2017. The portfolio return performance to date continues to be promising.

Report to Shareholders

Annual Financial Statements 31 December 2017

Our financial statements for the year ended 31 December 2017, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December 2017 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At balance date shareholders' funds were $22.3 million, equivalent to a net asset backing of 27 cps.

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

Assets comprised:

- Investments & loans $26.1 million
- Cash $1.8 million

Income was derived from interest of $61,952 on our short-term deposits. Dividend income of $1.9 million was received from portfolio companies.

The investment portfolio was re-valued under the fair value method at 31 December 2017. There was a corresponding $621,983 increase in earnout provision. There was a $2.8 million uplift in fair value of investments. A share buyback by George H Investments Limited resulted in realised gains of $82,769. In August 2017 a loan to Energyworks of $542,158 was written off as part of the realisation of this investment.

Administrative expenses were $1.1 million (2016 $1.2 million). Of the total administrative expenses, management fees were $894,440 (2016 $995,088) and director' fees $85,000.

The profit for the period was $2.5 million (2016 $5.3 million)

Earnout of $676,281 was distributed during the financial period (2016 $4.1 million). 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 pre-tax compound return of 8% per annum, which has been met.

Table 3 shows the Pohutukawa II Financial Performance Summary for the year ended 31 December 2017.

Table 3 - Pohutukawa II Financial Performance Summary

Pohutukawa II Financial Performance Summary For the year ended 31 December 2017	2017 $000	2016 $000
Operating Results		
Interest income	62	118
Dividend income	1,862	1,958
Change in fair value of investments	2,769	5,218
Gain on sale of investments	83	329
Portfolio co. loan impairment	(542)	-
Administrative Expenses	(1,096)	(1,203)
Movement in earnout provision	(622)	(1,130)
Profit for the year	2,516	5,290
Share performance		
Stapled Securities on issue	82,500,000	82,500,000
*Estimated Net Asset backing per share	$0.27	$0.27

** Includes provision for earnout*

The Manager

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

Call Programme

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

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 2017 the last sale price for Pohutukawa II shares was 22 cents while the net asset backing was 27 cps, after allowing for earn out.

Annual Shareholders Meeting

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

Date: **Tuesday, 22 May 2018**

Time: **2.30pm**

Place: **Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland RSVP By 11 May 2018. Contact Peter Lalor on 07 927 7927 or enquiries@pohutukawafund.co.nz**

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

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

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

Yours sincerely
POHUTUKAWA PRIVATE EQUITY II LIMITED

John McDonald
Chairman

Manager's Report on Portfolio Companies

The Manager is pleased to report on a successful portfolio performance for the year ended 31 December 2017.

2017 was positive for the portfolio which enabled two distributions to Pohutukawa II shareholders during the year, totalling 3.9 cps gross. Pohutukawa II has now distributed gross proceeds of 87.7 cps, well in excess of the 62 cps capital contribution, a pleasing result for the fund, especially when the remaining portfolio still comprises five investments.

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

- With the merger of Cavalier Wool Holdings and Wool Services completed the Company is focussed on maximising synergies;
- Hiway Group continues to review potential follow-on investment opportunities in New Zealand and Australia;
- Bayleys and PF Olsen continue to trade well and the Manager is actively looking at ways to crystalise value; and
- George H Investments has continued positive progress with realising several industrial properties.

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

Manager's Report on Portfolio Companies

BAYLEY CORPORATION LIMITED

www.bayleys.co.nz

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

* Total shareholding managed by Direct Capital 31%

Background

Bayleys is a property services company operating nationally from 90 corporate owned and franchise offices, and has a leading position in marketing commercial, industrial, rural, 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

Market conditions in 2017 were generally varied and in some sectors challenging for the broader industry, particularly in the Auckland residential market. While these features of the market have impacted on Bayleys, resulting in a slowdown of activity relative to the prior year and expectation, the business continues to perform well and is on track to achieve an above average earnings result in the year to 31 March 2018.

Performance by asset class and by region was mixed during the year. Commercial and industrial activity has seen strong year on year growth in Auckland and Wellington, offset by reducing activity in the regions. Soft residential conditions were encountered across the country however this was partially offset by a strong market share performance. Rural and lifestyle experienced modest growth during the year and Bayleys Property Services (asset management and valuation) performance as in line with expectation and above last year.

Outlook

Seasonally adjusted industry volumes in the NZ residential market have recovered from a 3-year low and remain below their long run average. Potential restrictions on foreign ownership and mildly increasing interest rates are expected to continue to dampen momentum in the property market in the coming financial year. The Company remains confident in its ability to continue to grow through the cycle and retains a solid set of organic and M&A growth initiatives.

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	3.3*

* Total shareholding managed by Direct Capital 13.7%

Background

Following the merger of CWH and the scouring subsidiaries of New Zealand Wool Services International (NZWSI) in December 2016, CWH became the single scouring processor of New Zealand wool.

Performance

With the merger of CWH and WSI now complete, the focus for the business shifted to maximising processing efficiencies across the supply chain and ensuring New Zealand's scouring industry remains globally competitive. Although processing volumes remain dependent on sheep numbers, the company is well-placed to act on growth initiatives within the high-value wool grease sector.

During the FY17 reporting period, all restructuring initiatives in respect of North Island and South Island plant amalgamations were completed. With processing volumes now consolidated at Awatoto (Napier) and Washdyke (Timaru), the plants have moved to a 24x7 shift structure. For peak season processing the company has retained an over-flow facility at Clive (Napier). Pleasingly, the amalgamations were completed on time and under budget. Significant capital was released and contributed to a material reduction in debt.

While sheep numbers were in line with expectations, reduced demand for New Zealand coarse wool, particularly from China, impacted processing volumes. This has led to a material increase in unprocessed wool retained in storage by growers and exporters. While reduced processing volumes negatively impacted FY17 revenue and earnings, we expect this to reverse over time as demand lifts and excess inventory levels are released for processing.

Outlook

All material restructuring initiatives are now complete and the industry is appropriately sized for current production levels. The outlook for New Zealand wool exports is broadly neutral in respect of both volume and international prices. Excess wool inventory is expected to clear during FY18 and FY19 and positively impact revenue and earnings. The international grease market is also expected to remain stable at current demand levels and with no material change in commodity pricing.

GEORGE H INVESTMENTS LIMITED

George H
Investments Ltd

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

* Total shareholding managed by Direct Capital 82.6%

Background

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

GHI's principal assets remaining, are land and buildings at industrial parks in:

- Whakatu, Hawke's Bay; and
- Silverstream, Mosgiel.

Performance

Whakatu Industrial Park

The final site is currently under a tender process.

Silverstream Industrial Park

Good progress has been made with five lots sold or under contract. Marketing is underway for the remaining seven sites and is expected to continue this year.

Canada Cres, Christchurch

Settlement from the sale of this property was received late 2017.

Outlook

The assets of GHI will be managed to maximise value.

Manager's Report on Portfolio Companies

PF OLSEN GROUP LIMITED

www.pfolsen.co.nz

PFOLSEN

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

* Total shareholding managed by Direct Capital 40.0%

Background

PF Olsen is Australasia's largest provider of outsourced forestry and rural asset management services. PF Olsen manages approximately 350,000 hectares of timberlands and other rural assets across Australasia, and supervises the harvest of over 7.5 million tonnes of logs per annum. The business also offers health and safety compliance, environmental compliance, genetically improved seed and seedling sales, and other technical services.

Performance

The completion of the December 2017 financial year saw PF Olsen's revenue and earnings up on the prior year and in line with expectations. New Zealand operations continue to perform well, with volumes and revenues growing on the back of a rising national availability of mature wood for harvest. Promisingly, the Company has also benefited from a renewed interest in new and replanting activities, with land planted by PF Olsen doubling on the prior year.

Australian activity continues to grow however earnings were behind plan for the year. Newly won and retendered mandates have resulted in a step change in overhead structure, and PF Olsen's expansion into other types or rural asset management services will require further investment to achieve scale.

PF Olsen continues to be cash generative, making a number of distributions during the year.

Outlook

Positive log market conditions continue to drive activity in Australasia, with buoyant but more importantly high stable log prices driving harvesting management operations. The level of wood available for harvest, particularly in New Zealand, is also expected to increase substantially over coming years which will benefit the profitability of PF Olsen. Rising carbon prices are also seeing strong interest in forestry planting. A number of meaningful management contracts expire during 2018, which will need to be replaced to sustain the current levels of activity.

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 has been delivering innovative ground improvement solutions throughout New Zealand, Australia and the South Pacific since 1986. Today, Hiway Group is one of New Zealand's largest providers of specialist solutions for pavement stabilisation, slip and slope reinforcement, soil mechanics, ground improvement and contamination remediation. Over the last five years, Hiway Group has substantially grown its presence in Australia and now has operations in Queensland, New South Wales and Victoria.

Performance

For the nine months ended 31 December 2017[1], Hiway Group's financial performance exceeded expectations and the previous comparable period. Key updates across the Group's three operating segments were:

- The New Zealand stabilisation business continued its positive run, buoyed by demand for Hiway's specialist fill drying services. Fill drying involves the drying of existing ground, converting unusable, wet soil into a usable and controlled engineered fill. New tracked equipment is now operational and has helped to increase fill drying capacity and productivity.

- The Group's Australian operations experienced positive momentum due to increased investment in infrastructure across the eastern states of New South Wales, Queensland, and Victoria. Hiway also completed the acquisition of a small micro-stabilisation business in Victoria.

- Hiway Geotechnical completed a major rock-fall mitigation project at Ohau Point, Kaikoura, and has a good pipeline of upcoming work.

- Hiway recently won 'Employer of the Year' at the Westpac Nationwide 'Best of the Best' Business Awards.

Outlook

With increased spending on infrastructure maintenance and capital projects providing organic growth opportunities for the Hiway Group on both sides of the Tasman, Management are looking forward to a positive 2018. The Company will also look to complement organic growth by selectively targeting further strategic acquisitions in New Zealand and Australia.

[1]*Hiway Group's financial year end is 31 March*

Directors' Report

For the year ended 31 December 2017

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

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

Entries recorded in the interests register

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

Directors' shareholdings and dealings in Pohutukawa II at 31 December 2017

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 2017

(Directors holding office at 31 December 2017)

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
George H Investments	11,848	11,848	4,181	7,933
PF Olsen Group Ltd	2,134	2,133	949	949
Hiway Group Ltd - equity	39,028	39,026	11,914	16,623
Hiway Group Ltd - debt	3,088	3,087	943	1,315

Director

20 March 2018

Date

Director

20 March 2018

Date

Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017	2016
Interest income		61,952	118,158
Dividend income		1,862,099	1,957,982
Change in fair value of investments		2,769,488	5,218,279
Gain on realisation of investments	*7(d)*	82,769	328,995
Impairment of loans to portfolio companies	*9*	(542,158)	-
Movement in earnout provision	*14*	(621,983)	(1,130,323)
Administrative expenses	*5*	(1,096,182)	(1,203,210)
Profit before tax		2,515,985	5,289,881
Income tax expense	*6*	-	-
Profit for the year		2,515,985	5,289,881
Other comprehensive income for the year		-	-
Total comprehensive income for the year		2,515,985	5,289,881
Attributable to:			
Equity holders of the parent		(280,793)	(688,377)
Equity holders of the investment companies	*3a(iv)*	2,796,778	5,978,258
Profit and total comprehensive income for the year attributable to the equity holders of stapled securities		2,515,985	5,289,881

Statement of changes in equity

For the year ended 31 December 2017

	Note	Attributable to equity holders of the parent Share capital	Retained losses	Total	Attributable to equity holders of the investment companies	Total equity
Balance at 1 January 2017		32,187,450	(14,170,522)	18,016,928	4,452,186	22,469,114
Total comprehensive income for the year		-	(280,793)	(280,793)	2,796,778	2,515,985
Redemption of share capital	*12*	(576,749)	-	(576,749)	-	(576,749)
Distributions to equity holders	*12*	-	-	-	(2,128,371)	(2,128,371)
Balance at 31 December 2017		31,610,701	(14,451,315)	17,159,386	5,120,593	22,279,979
Balance at 1 January 2016		33,790,111	(13,482,145)	20,307,966	8,052,809	28,360,775
Total comprehensive income for the year		-	(688,377)	(688,377)	5,978,258	5,289,881
Redemption of share capital	*12*	(1,602,661)	-	(1,602,661)	-	(1,602,661)
Distributions to equity holders	*12*	-	-	-	(9,578,881)	(9,578,881)
Balance at 31 December 2016		32,187,450	(14,170,522)	18,016,928	4,452,186	22,469,114

Statement of financial position

As at 31 December 2017

	Note	2017	2016
Assets			
Loans to portfolio companies	*9*	346,799	1,257,092
Investments – equity securities	*7(c)*	25,777,936	23,976,380
Total non-current assets		26,124,735	25,233,472
Receivables and prepayments	*8*	9,022	7,910
Cash and cash equivalents	*11*	1,778,084	2,903,619
Total current assets		1,787,106	2,911,529
Total assets		27,911,841	28,145,001
Equity			
Issued capital	*12*	31,610,701	32,187,450
Retained losses		(14,451,315)	(14,170,522)
Total equity attributable to equity holders of the parent		17,159,386	18,016,928
Equity attributable to equity holders of the investment companies	*3a(iv)*	5,120,593	4,452,186
Total equity attributable to equity holders of stapled securities		22,279,979	22,469,114
Liabilities			
Trade and other payables	*13*	61,865	51,592
Total current liabilities		61,865	51,592
Earnout provision	*14*	5,569,997	5,624,295
Total non-current liabilities		5,569,997	5,624,295
Total liabilities		5,631,862	5,675,887
Total equity and liabilities		27,911,841	28,145,001

For and on behalf of the Board

Director

20 March 2018

Date

Director

20 March 2018

Date

Statement of cash flows

As at 31 December 2017

	Note	2017	2016
Cash flows from/(to) operating activities			
Dividends received		1,862,099	1,957,982
Interest received		61,952	118,158
Cash paid to suppliers		(1,087,022)	(1,203,462)
Distribution of earnout	*14*	(676,281)	(4,112,792)
Net cash from/(to) operating activities	*15*	160,748	(3,240,114)
Cash flows from /(to) investing activities			
Acquisition of investments		(110,724)	-
Realisations from investments		1,161,426	13,150,120
Repayment of loans from portfolio companies	*9*	368,135	68,468
Net cash from investing activities		1,418,837	13,218,588
Cash flows from /(to) financing activities			
Redemption of preference shares	*12*	(576,749)	(1,602,661)
Distributions to equity holders	*12*	(2,128,371)	(9,578,881)
Net cash from/(to) financing activities		(2,705,120)	(11,181,542)
Net movement in cash and cash equivalents		(1,125,535)	(1,203,068)
Cash and cash equivalents at 1 January		2,903,619	4,106,687
Cash and cash equivalents at 31 December	*11*	1,778,084	2,903,619

Notes to the consolidated financial statements

1. Reporting entity

Pohutukawa Private Equity II Limited (the "Company") is a company incorporated and domiciled in New Zealand. Pohutukawa Private Equity II Limited and the 12 (2016: 12) 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 2013.

The consolidated financial statements of the Group for the year ended 31 December 2017 comprise the Company and 12 (2016: 12) Investment Companies (together referred to as the "Group").

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

The financial statements were approved by the Directors on 20 March 2018.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Stapled securities

For every ordinary share held in Pohutukawa Private Equity II Limited, investors also hold 100 preference shares in Pohutukawa Private Equity II Limited as well as one preference share in each of the 12 (2016: 12) Investment Companies. All of these shares are stapled securities. This stapling arrangement creates a business combination by contract alone without any individual entity obtaining an ownership interest. The Group has designated Pohutukawa Private Equity II Limited as the acquirer and the parent entity

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(i) Stapled securities (continued)

for the purpose of preparing consolidated financial statements. The 12 (2016: 12) companies combining under the stapling arrangement are designated as the Investment Companies, refer Note 19, which invest in Portfolio Companies, refer Note 7.

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

(ii) Associates

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

(iii) Transactions eliminated on consolidation

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

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

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

(b) Investments in equity securities

The Group's investments in equity securities are 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, being the date on which the Group commits to purchase or sell the asset.

(c) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less impairment losses (see accounting policy 3(g)).

(d) Loans receivable

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

(e) Finance expense - interest

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

(f) Cash and cash equivalents

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

(g) Impairment

The carrying amounts of the Group's assets, other than investments in unlisted equity securities (see accounting policy 3(b)), and deferred tax assets (see accounting policy 3(l)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on the present value of estimated future cash flows, discounted at the original effective interest rate.

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(g) Impairment *(continued)*

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

(h) Share capital

(i) Ordinary share capital

Share capital is recognised as paid in capital when a call has been made to shareholders, and is due.

(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) is 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.

(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

NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. NZ IFRS 9 Financial Instruments replaces the existing guidance in NZ IAS 39 Financial Instruments: Recognition and Measurement.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(m) New standards and pronouncements relevant to the Group *(continued)*

NZ IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. This standard replaces NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and related interpretations.

The Group is yet to fully complete its assessment of the full impact of adopting these standards, however it is not expected to be material.

NZ IFRS 16 removes the classification of leases as either operating or finance leases - for the lessee - effectively treating all leases as finance leases. Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating. NZ IFRS 16 Leases replaces the existing guidance in NZ IAS 17 Leases. The Group is yet to fully complete its assessment of the full impact of adopting this standard but it is expected that the standard will have no impact on the Group.

4. Determination of fair values

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

5. Administrative expenses

	Note	2017	2016
Management fees	*17(b)*	894,440	995,088
Directors' fees	*17(c)*	85,000	85,000
Other administrative expenses		116,742	123,122
		1,096,182	1,203,210
The following items of expenditure are included in administrative expenses:			
Auditor's remuneration to KPMG comprises:			
Audit of financial statements		31,139	30,428
Review of interim financial statements		7,350	8,021
Review of preferred return		-	3,623
		38,489	42,072

Notes to the consolidated financial statements

6. Income tax expense

	Note	2017	2016
Income tax expense in statement of comprehensive income		-	-

Reconciliation of effective tax rate

	Note	2017	2016
Profit before tax		2,515,985	5,289,881
Income tax expense at 28% tax rate		704,476	1,481,167
Non-deductible expenses		445,599	28,732
Non-assessable income		(1,088,551)	(1,578,094)
Imputation credits received		(521,388)	(548,235)
Tax losses not recognised	*10*	459,864	616,430
Total income tax expense in statement of comprehensive income	-		-

Imputation credits

	2017	2016
Imputation credits available to shareholders of the parent company:		
Through investment companies	98,387	516,651
	98,387	516,651

Notes to the consolidated financial statements

7. Investments – equity securities

Non-current investments

The Group has five investments in unlisted equity securities (2016: six). 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. Where there is no quoted market price for these securities, valuation techniques must be utilised to determine fair value. The valuations are carried out by Direct Capital IV Management Limited (see Note 17) using IPEV valuation guidelines which also ensures compliance with NZ IFRS 13.

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

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

2017

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

2016

Entity name	Activities	Acquisition date	Cost
Bayley Corporation Limited	Real Estate Services	Jun 2010	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	3,336,366
George H Investments Limited	Property investor	Jul 2011	1,641,785
PF Olsen Group Limited	Forestry management	Sept 2011	2,573,526
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	3,437,897
Energyworks Holdings Limited	Engineering services	Jan 2014	4,637,533
			19,201,773

Notes to the consolidated financial statements

7. Investments – equity securities *(continued)*

(a) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

31 December 2016	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	23,976,380	23,976,380

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	2017	2016
Opening balance	23,976,380	21,973,359
Total gains:		
In profit or loss	2,852,258	5,218,279
Investments at cost during the year	110,724	-
Capital returns	(1,161,426)	(3,215,258)
Closing balance	25,777,936	23,976,380

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

Investments	2017	2016
Total gains included in profit or loss for the year	2,852,258	5,547,274
Total gains for the year included in profit or loss for assets held at the end of the reporting period	2,769,488	5,218,279

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Refer Note 7(b) for sensitivity analysis with regards to the earnings multiple or adjustment factor.

Notes to the consolidated financial statements

7. Investments – equity securities *(continued)*

(b) Sensitivity Analysis

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by $1,355,504 (2016: $843,790). A movement in the downward adjustment factor of 5% changes the value of the investments by $1,653,357 (2016: $1,911,619). A movement in the maintainable earnings of 5% changes the value of the investments by $1,351,318 (2016: $1,424,353).

(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 2017 was $25,777,936 (2016: $23,976,380).

(d) Gain on realisation of investments

A share buyback by George H Investments Limited resulted in realised gains of $82,769 during the year ended 31 December 2017 (2016: Scales Corporation Limited, gain of $328,995).This has been recognised in profit or loss.

8. Receivables and prepayments

	2017	2016
GST receivable	2,050	938
Other receivables	6	6
Prepayments	6,966	6,966
	9,022	7,910

As at 31 December 2017, no receivables are considered past due (2016: $Nil).

9. Loans to Portfolio Companies

	2017	2016
Hiway Group Limited	346,799	714,934
Energyworks Holdings Limited	-	542,158
	346,799	1,257,092

Hiway Group Limited

Hiway Group Limited (investment held by Pohutukawa Zeta Limited) repaid $368,135 during the year (2016: $68,468). The current interest rate is 0.0% (2016: 0.0%). The loan is pro-rated with all other shareholders. The terms of the loan enable Hiway Group Limited, at its option, to capitalise the loan 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. In August 2017 the loan was written off as part of the realisation of this investment.

Notes to the consolidated financial statements

10. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

	Note	2017	2016
Opening balance 1 January		3,901,723	3,285,293
Tax losses not recognised	*6*	459,864	616,430
Closing balance 31 December		4,361,587	3,901,723

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

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

Investment Companies taxation losses cannot be used by the parent.

11. Cash and cash equivalents

	2017	2016
Call deposits	1,778,084	2,903,619
Cash and cash equivalents in the statement of cash flows	1,778,084	2,903,619

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited and are also held directly with ANZ Bank New Zealand Limited. The weighted average interest rate for 2017 on call deposits was 2.20% (2016: 2.55%) and 0.63% (2016: 0.95%) respectively.

Notes to the consolidated financial statements

12. Share capital

Share capital

	Investment Co's Preference shares		PPE II Ordinary shares		PPE II Preference shares	
In millions of shares	2017	2016	2017	2016	2017	2016
On issue at 1 January	990	990	82.5	82.5	6,355	6,515
Cancellation of shares	-	-	-	-	-	-
Redemption of shares	-	-	-	-	(58)	(160)
On issue at 31 December	990	990	82.5	82.5	6,297	6,355

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

At 31 December 2017, the share capital of the Company comprised 82,500,000 ordinary shares (2016: 82,500,000), and 6,296,880,400 preference shares (2016: 6,354,555,300). In addition, there are 990,000,000 (2016: 990,000,000) preference shares in the 12 (2016: 12) Investment Companies (82,500,000 in each).

Ordinary shares and Investment Company preference shares have been allotted at nil value. The Pohutukawa Private Equity II Limited shares (stapled shares) have been issued at $1.00 per share, paid to $0.62. During the year there were no calls (2016: $Nil). Subsequent calls will be in tranches of a minimum of $0.05 per share and subject to 30 days advance notice.

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

Following the $0.80 cap announcement in December 2014, shareholders have a commitment to fund a further $0.18 per share totalling $14.85 million (2016: $0.18 per share totalling $14.85 million) in subsequent calls, subject to Board approval. Calls will not be made unless the proceeds of all previous calls have been invested or committed in full.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Distributions of $2,128,371 ($0.026 per share) were declared during the year by companies within the Group (2016: $9,578,881, $0.116 per share). All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to $0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

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

Notes to the consolidated financial statements

13. Trade and other payables

	2017	2016
Trade payables and accrued expenses	61,865	51,592
	61,865	51,592

14. Earnout Provision

	2017	2016
Opening provision	5,624,295	8,606,764
Movements during the year	621,983	1,130,323
Distribution of earnout during the period	(676,281)	(4,112,792)
Closing earnout provision	5,569,997	5,624,295

In accordance with clause 10 of the Prospectus the Earnout holder is entitled to earnout calculated at 20% of net returns to Pohutukawa Private Equity II Limited provided investors have received back their original investment together with further distributions producing a pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 31 December 2017 the estimated earnout provision is calculated at $5,569,997 (2016: $5,624,295). This calculation is based on unrealised portfolio company fair value valuations of $25,777,936 (2016: $23,976,380) and loans receivable of $346,799 (2016: $1,257,092) being fully recovered. During the year ended 31 December 2017 $676,281 (2016: $4,112,792) of earnout has been distributed to the Earnout holder.

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

	Note	2017	2016
Profit for the year		2,515,985	5,289,881
Adjustments for:			
Change in fair value of investments		(2,769,488)	(5,218,279)
Gain on realisation of investment		(82,769)	(328,995)
Impairment of loans to portfolio companies		542,158	-
Change in trade and other receivables		(1,112)	384
Change in trade payables and accruals		10,272	(636)
Change in earnout provision	*14*	(54,298)	(2,982,469)
Net cash flow to/(from) operating activities		160,748	(3,240,114)

Notes to the consolidated financial statements

16. Financial risk management

Introduction and overview

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

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

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

Equity price risk

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

Credit risk

Exposure to credit risk arises in the normal course of the Group's business from its loans and receivables and bank balances. The Group does not require collateral in respect of financial assets. At the end of the reporting period there were no significant concentrations of credit risk.

The Group invests its surplus funds in short-term deposits with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited (refer Note 17). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position.

Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business from bank accounts and short-term deposits. Management invests excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required. The Group may also borrow short-term funds at floating rates due to the short-term nature of these borrowings.

Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances and short-term deposits. At the end of the reporting period the effective interest rates for bank balances are 2.25% (2016: 2.20%). Bank balances reprice daily.

Liquidity risk

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

Notes to the consolidated financial statements

16. Financial risk management *(continued)*

Interest rate risk – repricing analysis

	Note	Total	Non interest bearing	6 months or less
2017				
Cash and cash equivalents	*11*	1,778,084	-	1,778,084
Total		1,778,084	-	1,778,084
2016				
Cash and cash equivalents	*11*	2,903,619	-	2,903,619
Total		2,903,619	-	2,903,619

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

Sensitivity analysis

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

Capital management

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

The Group's policy is to maintain its capital structure in terms of the prospectus and repay capital as investments are realised. As disclosed in Note 12, $0.62 per share has been paid on the capped $0.80 per share (2016: $0.62 per share). The remaining $0.18 (2016: $0.18) will be called as required in accordance with the terms of the prospectus (See Note 12 on call extension).

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

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

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

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

Notes to the consolidated financial statements

16. Financial risk management *(continued)*

Classification and fair values

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

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
2016						
Assets						
Cash and cash equivalents	*11*	-	2,903,619	-	2,903,619	2,903,619
Receivables	*8*	-	944	-	944	944
Investments – unlisted equity securities	*7(c)*	23,976,380	-	-	23,976,380	23,976,380
Loans to portfolio companies	*9*	-	1,257,092	-	1,257,092	1,257,092
Total assets		23,976,380	4,161,655	-	28,138,035	28,138,035
Liabilities						
Trade and other payables	*13*	-	-	51,592	51,592	51,592
Total liabilities		-	-	51,592	51,592	51,592

Notes to the consolidated financial statements

17. Related parties

a) Identity of related parties

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

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

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

b) Transactions with related parties

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

- Management fees paid to Pohutukawa II Management Limited totalled $894,440 (2016: $995,088).
- No legal expenses were incurred by Direct Capital IV Management Limited during 2017 (2016: $12,552). There were no amounts outstanding at 31 December 2017 (2016: $Nil).
- Call deposits of $1,773,373 (2016: $2,903,619) are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Earnout of $676,281 (2016: $4,112,792) was distributed to Pohutukawa II Investment Holdings LP.

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

c) Transactions with key management personnel

	2017	2016
Directors fees (total remuneration)	85,000	85,000

The balance owing to key management personnel at 31 December 2017 is $21,250 (2016: $21,250).

18. Subsequent events

There were no material subsequent events for the Group.

Notes to the consolidated financial statements

19. Group entities

Investment Companies

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

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

Audit report

KPMG

Independent Auditor's Report

To the shareholders of Pohutukawa Private Equity II Limited.

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Pohutukawa Private Equity II Limited (the Company) and its subsidiaries (the Group) on pages 14 to 33:

i. Present fairly in all material respects the Group's financial position as at 31 December 2017 and its financial performance and cash flows for the year ended on that date; and

ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- The consolidated statement of financial position as at 31 December 2017;
- The consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Other Information

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

Audit report

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

Use of this Independent Auditor's Report

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

Responsibilities of the Directors for the consolidated financial statements

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

- The preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

- Implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

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

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

For and on behalf of

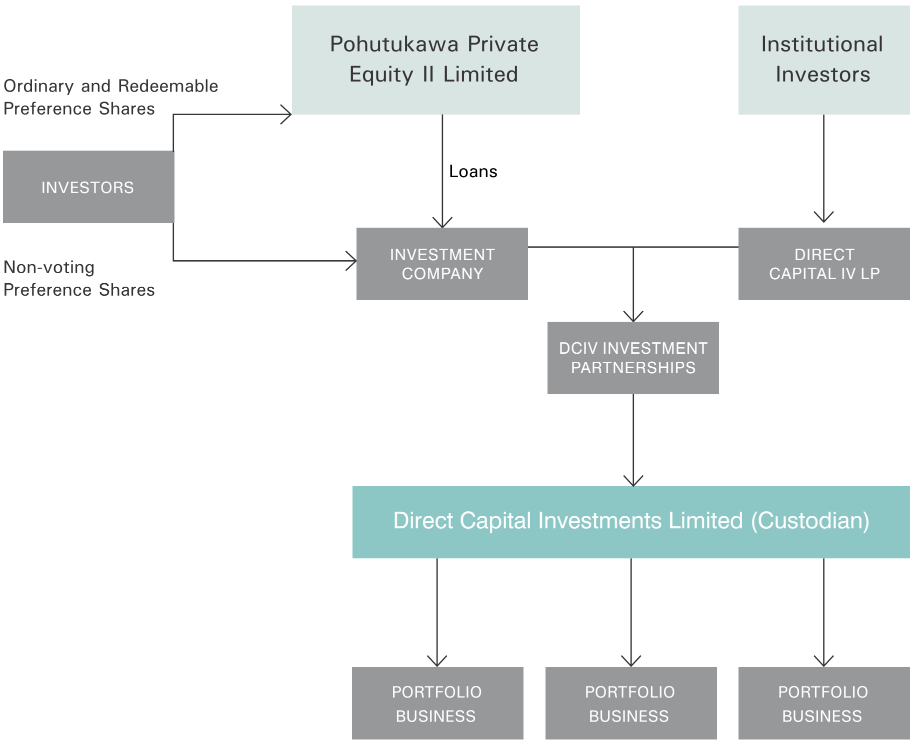
KPMG

KPMG
Tauranga
20 March 2018

Corporate Governance & Structure

Pohutukawa Private Equity II Limited (Pohutukawa II) is the Fund. Investors hold both ordinary and redeemable preference shares in Pohutukawa II. Investors also hold redeemable preference shares in each of the special purpose vehicles (Investment Companies), which invest in the portfolio companies. These are called stapled securities. There are 82.5 million ordinary shares on issue. The number of ordinary shares on issue remains constant while the ratio of preference shares reduces as investments are realised and preference shares are redeemed.

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



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

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

Craigs Investment Partners is entitled to appoint up to 50% of the directors of Pohutukawa II. All other directors of Pohutukawa II can be appointed by directors or removed by ordinary resolution of the investors. The Board sets the investment policy and criteria, and reviews the performance of the Manager from time to time and reports to the shareholders on the review. It reviews the capital adequacy of Pohutukawa II and is responsible for continuous disclosure and shareholder meetings of Pohutukawa II. The Directors of each Investment Company can be appointed or removed only by the limited partners.

The Manager is a 50/50 joint venture between Direct Capital IV Management Limited and Craigs Investment Partners Limited, both of whom provide services to the Manager on a contract basis. Direct Capital provides investment management services. Craigs Investment Partners provides fundraising, cash management, treasury management, administration, investor communication, and investment sourcing and divestment assistance. The Investment Committee of the Manager is responsible for all investment decisions.

The Pohutukawa II Board

The Board of Pohutukawa Private Equity II Limited (whose profiles follow) comprises four directors, two from Craigs Investment Partners and two independent directors, one of whom is Chairman. The Board is responsible for appointing, and then monitoring the performance of the Manager, reviewing Pohutukawa's investment policy and criteria, and managing conflicts of interest between the Manager and the Pohutukawa fund.

JOHN MCDONALD
(Chairman and Independent Director)

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

MAURICE PRENDERGAST
(Independent Director)

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

NEIL CRAIG
(Non-Executive Director)

Neil is the founding principal and Executive Chairman of Craigs Investment Partners, a New Zealand Exchange Participant Firm. Craigs Investment Partners has approximately 450 staff across 17 branches throughout New Zealand. Neil has a broad experience in private equity transactions, stock exchange listings, capital raisings and corporate activity for a wide range of companies. In a personal capacity Neil has been an active private equity investor for many years.

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

MIKE CAIRD
(Non-Executive Director)

Mike was appointed as a director of Pohutukawa Private Equity II Limited in September 2013. Mike is also a director of Pohutukawa Private Equity V Ltd, Kowhai Private Equity No.1 LP and the New Zealand Social Infrastructure Fund Limited. Mike joined Craigs Investment Partners in March 2009 as Head of Debt Capital Markets, and had been a Director of Craigs Investment Partners since 2001. Mike's career in financial markets includes 11 years with ABN AMRO, during which he was Head of Acquisition and Leveraged Finance for Australia and New Zealand and Head of Global Markets New Zealand, Brierley Investments Limited for 10 years and Ernst & Young for four years. Mike has previously been a Director of Hospital Car Parking Limited, McConnell Property Limited, Mangawhai Development Holdings Limited, AsiaPower Limited and Aetna Health (New Zealand) Limited. Mike is a director of the AMN Limited private group of companies involved in glass services, Just Plants Ltd group (indoor plant hire) and Signal Corporation Ltd (social media).

Committees

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

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

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

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

Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald
Maurice Prendergast
Neil Craig
Mike Caird

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

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