Annual Report

For the Year Ended 31 December 2011

Pohutukawa
PRIVATE EQUITY II LIMITED

Contents

Report to Shareholders

16 April 2012

Dear Shareholder

I am pleased to present Pohutukawa II's third annual report. The report includes the financial statements for the financial year ended 31 December 2011 with commentary on our portfolio companies' performances and investment prospects for 2012.

2011 proved to be another challenging year for many small to medium sized businesses in our New Zealand market segment. It showed that in order to survive, grow and prosper in the prevailing economic environment businesses must have their business and financial structures founded on sound fundamentals. Management needs to be able to adapt to changing business situations resulting from ongoing market volatility.

Our portfolio companies faced these challenges and their performances were all creditable in light of the turbulent economic environment that persisted.

Paradoxically the negative sentiment in the global market place has the effect of increasing the number of investment opportunities – the key is to identify the best of those opportunities. Over the 12 month period to 31 December 2011 our Direct Capital investment management team reviewed over 100 investment prospects. Direct Capital has developed over many years of private equity investing a proven investment model that involves investing alongside owners in well-managed, profitable companies that show growth potential. This disciplined approach saw Direct Capital narrow the possible investments to a short-list, which resulted in Pohutukawa II making 3 new investments during the year, in Scales Corporation, PF Olsen Group and Hiway Group.

Pohutukawa II's 6 investments at 31 December 2011 represent an investment outlay of $23 million, or approximately 28% of the fund's $82.5 million of Committed Capital. The investment in Transaction Services has already produced a capital return of $1.35 million during the financial reporting period. We continue to be pleased with investment progress to date and expect that we will be largely invested inside our five year investment target timeline.

GST Review

During the year Inland Revenue concluded its review of Pohutukawa II's GST registration. This resulted in the refund of the majority of GST balances being held. Directors are pleased with this result and the agreed future treatment of GST.

Pohutukawa II Fund

The Pohutukawa II offer raised $82.5 million in February 2009. Pohutukawa II coinvests with the Direct Capital IV fund on a pro-rated basis in all investments it makes.

The Direct Capital IV fund raised $325 million including Pohutukawa II and a number of institutions including the New Zealand Super Fund.

Portfolio Company Investments in 2011

Of the 37 cents per share called, Pohutukawa II has invested 27.9 cents per share, or $23 million, with the balance held on bank deposit or used to pay management fees and other operating costs. See *Table 1* page 3, which shows all investments at cost. During 2011 the fund invested in the following companies:

Scales Corporation Limited

In July 2011 Direct Capital, through its Direct Capital IV and Pohutukawa II funds and large institutional co-investors including the NZ Super Fund, invested $44 million to acquire a 79.7% interest in Scales Corporation Ltd (Scales). Scales is a leading New Zealand horticultural and primary sector processing, exporter and logistics business. Scales group of businesses can be classified into four main divisions; Mr Apple; storage and logistics, coldstores and bulk liquid storage; Meateor (pet food ingredients); and property holdings.

In December 2011 Scales acquired a 10.1% stake in Turners & Growers; this was completed in February 2012 at an investment cost of $23 million. This is a strategic industry investment with Scales investing alongside German company BayWa (which operates in the agricultural, building materials and energy sectors). BayWa holds 73.068% of Turners & Growers, with the balance held by institutions and the public. It will remain listed on the NZX.

Pohutukawa II holds a 9.1% interest in Scales.

Report to Shareholders

PF Olsen Group Limited

PF Olsen is one of Australasia's largest independent providers of professional forestry services.

In September 2011 Direct Capital IV and Pohutukawa II funds acquired a 30% shareholding in the company. The objective is to, with shareholder approval, increase this stake to between 40% to 50%.

Pohutukawa II has a 7.1% interest in PF Olsen.

Hiway Group Limited

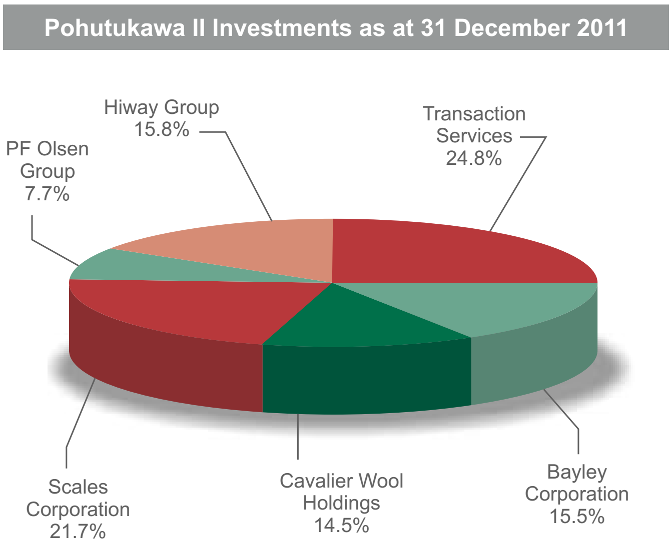
Hiway Group is a leading roading and infrastructure services contractor which undertakes business in New Zealand and Australia. The investment in Hiway Group was completed in December 2011 with Direct Capital IV, Pohutukawa II and coinvestment partners taking a 60% shareholding.

Pohutukawa II has a 14.3% interest in Hiway Group.

Portfolio Weightings

The six portfolio company investments are diverse with Transaction Services being the largest and the smallest investment currently being PF Olsen. See *Chart 1*.

Chart 1 - Each portfolio company investment as a percentage of the total investment portfolio at cost to 31 December 2011:



Portfolio Company Investment Revaluations

The Manager revalues the portfolio investments each quarter using valuation guidelines issued by AVCAL (The Australian Private Equity & Venture Capital Association). These quarterly revaluations are completed for all portfolio company investments unless the investment has been recently completed, in which case they are reported at cost. The portfolio was valued at $23.5 million at 31 December 2011, comparing favourably to the investment cost of $21.7* million. (*adjusted for Transaction Services return of capital $1.35m)

Table 1 Pohutukawa II Portfolio Company Investments at Cost

Schedule of Investments 31 December 2011	Date of Investment	Industry Sector	Total Investment at Cost (NZ$)	PPE Shareholding %
Transaction Services Limited	29 Jan 2010	Services	$ 5,700,507	11.4
Bayley Corporation Limited	21 June 2010	Real estate	$ 3,574,666	7.5
Cavalier Wool Holdings Limited	23 Dec 2010	Agriculture	$ 3,336,366	6.0
Scales Corporation Limited	22 July 2011	Agri-Services	$ 4,997,799	9.0
PF Olsen Group Limited	15 Sep 2011	Agri-Services	$ 1,772,033	7.1
Hiway Group Limited	30 Dec 2011l	Infrastructure	$ 3,646,159	14.3
Total Cost				**$ 23,027,530**

Report to Shareholders

Annual Financial Statements 31 December 2011

Our financial statement for the year ended 31 December 2011, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December 2011 Pohutukawa II had 82.5 million stapled securities on issue, $1 shares paid to 37 cents.

At balance date shareholders' funds were $25.2 million.

Assets comprised:

- Investments $23.5 million
- Receivables $0.20 million
- Cash $1.77 million

Trade payables total $50k.

Income was derived from interest of $38k from short-term deposits with the National Bank of New Zealand and Craigs Investment Partners Cash Management Account.

Fully imputed dividend income of $752k was received from portfolio companies.

There was a positive change in fair value of investments $914k.

Administrative expenses were $2.24 million, plus finance (interest) expense of $85k. Of the total administrative expenses, management fees were $1.87 million and directors fees $64k.

The loss for the period was $616k.

Table 2 shows the Pohutukawa II Financial Performance Summary for the year ended 31 December 2011.

Table 2

Pohutukawa II Financial Performance Summary
For the year ended 31 December 2011

		2011 $000	2010 $000
Operating Results			
Interest income		38	55
Dividend income		752	54
Change in fair value of investments		914	922
Administrative expenses		(2,235)	(2,022)
Financial expenses		(85)	(76)
Loss for the year		(616)	(1,068)
Share performance			
Stapled Securities on issue	$1.00	82,500,000	82,500,000
Earnings per share		nil	nil
Net asset backing-cents per share		$ 0.31	$ 0.16

Report to Shareholders

The Manager

One of the roles of the Pohutukawa II Board is to review the Manager's performance. This review was undertaken at the end of 2011. 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.

Secondary Market

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

The last sale price on 31 March 2012 was 41 cents while the net asset backing at 31 December 2011 was 31 cps.

Call

A 10cps call was paid on 2 April 2012 increasing the paid up capital to 47cps. Of the $8.25 million call monies received, $1.77 million was applied to repay our short-term borrowings used for the Scales follow-on investment. Part of the balance will be applied to upcoming investments with the balance held on short term bank deposit, pending investment.

Investment Prospects

From the recent call money the Manager is looking at follow-on investments including PF Olsen, in the short-term.

The investment team continues to review a number of other investment prospects in New Zealand and Australia. This should lead to more positive investment news during the course of this year.

Annual Shareholders Meeting

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

Date: **Tuesday, 22 May 2012**
Time: **2.45pm (follows the Pohutukawa I meeting at 2.30pm)**
Place: **Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland**
RSVP: **Contact Peter Lalor on 07 5774 727 or enquiries@pohutukawafund.co.nz by 11 May 2012.**

You are welcome to attend this meeting and we look forward to seeing you there.

Thank you for your ongoing support of Pohutukawa II. With receipt of the April call proceeds, there are sufficient funds to apply towards the next investment and working capital costs. We will provide you with 30 days' notice for future calls when further funding is required.

If you have any queries regarding your investment in Pohutukawa II, please call your Investment Adviser or Peter Lalor at Pohutukawa II Management on 07 577 4727.

Yours sincerely,
POHUTUKAWA PRIVATE EQUITY II LIMITED

John McDonald
Chairman

Manager's Report

Three new investments were made during this second full year of investment activity for Pohutukawa II. The total amount of the new investments was $10.4 million (12.6% of Committed Capital), in addition to the $12.6 Million (15.3% of Committed Capital) invested in the 2010 year.

The three new companies, together with the existing portfolio represent a diverse cross section of the New Zealand economy. All investments have weathered the slow trading year comfortably and are well poised to take advantage of any opportunities as they arise. The portfolio company performance to date highlights the advantage of investing during this period of the economic cycle where maintainable earnings are generally more robust.

The profit and loss statement highlights the growing revenue stream from dividends received from portfolio companies during the financial year. This highlighted the robust earnings and cashflows from the businesses which was reflected by another increase in the fair value of the investment portfolio.

The portfolio companies remain focussed on growth opportunities in both New Zealand and Australia. This remains an important period for our portfolio companies as they look to implement their individual game plans. Two portfolio companies, Cavalier Wool and Scales have publicly announced during the year important initiatives to expand their businesses. Since year end, a further investment in Scales of $2.3 million has enabled the company to complete the purchase of a 10.1% shareholding in NZX listed Turners & Growers. The support provided by Direct Capital and Pohutukawa II is critical to enabling the business to be successful during this process.

At 31 December 2011 the Manager had invested 28% of the fund and is satisfied with the level of investment activity thus far.

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

Table 3 illustrates the composition of the portfolio at 31 December 2011 investment cost.

Table 3

Company Ranking Based on Investment Cost at 31 December 2011	As a % of Portfolio
Direct Investments	
Transaction Services	24.8%
Scales Corporation	21.7%
Hiway Group	15.8%
Bayley Corporation	15.5%
Cavalier Wool Holdings	14.5%
PF Olsen Group	7.7%
Total Pohutukawa II Investments	**100%**

Fortunately damage caused by the February 2011 Christchurch earthquakes did not significantly affect the portfolio. Portfolio companies Bayleys and Scales have direct business in Christchurch. Scales through subsidiary, Polarcold has lost the use of one of the four cold stores in the region which still remains closed for repairs.

In addition Scales' Christchurch head office was severely damaged and discussions are continuing with the company's insurer. The premises have remained unoccupied ever since the initial earthquake in 2010.

Both businesses have recognised the fantastic dedication of their employees during this unsettling period.

Investment Outlook

The investment appraisal and analysis process is proven and robust, and builds on Direct Capital's many years of experience investing in private companies. With the experience of having invested in approximately 65 companies over the last 17 years, we are committed to partnering with business owners and managers to continue creating growth and value in their businesses. Providing an investment into successful businesses to provide succession solutions to business owners is also a key offering within the private company market in New Zealand and Australia.

While the prevailing economic conditions continue, excellent opportunities exist for Pohutukawa II and Direct Capital IV to make meaningful investments in proven, profitable companies that require investment capital to meet their growth strategies.

We look forward to providing an update on our investments at the Annual Shareholders Meeting.

Manager's Report

TRANSACTION SERVICES LIMITED

www.debitsuccess.co.nz

transactionservices

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
January 2010	Third party processing	Buyout	$5,701 - equity	11.4

Total shareholding managed by Direct Capital 47.7%

Background

Transaction Services Limited (TSL) is Australasia's largest third party recurring payment processing company. TSL was established in 1994 and annually processes more than 20 million transactions on behalf of over 2,500 clients, from their 660,000 customers in New Zealand and Australia across a range of industries including health and fitness facilities, sports clubs, property management companies, childcare operators and retailers.

TSL operates under the brands Debitsuccess and FFA Paysmart, and manages the payment processing function for clients in a wide range of industries.

Direct Capital's investment in TSL was completed in January 2010.

Performance

TSL's performance in 2011 was very pleasing with significant growth again achieved over the prior year despite a noticeable softening in the NZ and Australian consumer markets.

In July 2011 TSL undertook a share buy-back and cancellation, returning capital of approximately 24% of our initial investment cost. The company also paid two fully imputed dividends in the year; in May 2011 the company paid a 5.7c dividend, followed by another dividend in December 2011 of 4.6c per share (after the share buyback and cancellation). In aggregate over one third of Direct Capital's initial investment has been returned.

Outlook

A number of significant new customer initiatives are currently being progressed. While the market environment is expected to remain challenging, with their ability to offer the full breadth of payment services to businesses of all sizes, TSL is well positioned to continue its impressive historical growth.

Manager's Report

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 - equity	7.5

Total shareholding managed by Direct Capital 31.5%

Background

Bayleys operates its New Zealand wide property business from 57 offices, has a leading position in commercial, industrial, farm sales, and a strong position in high-value residential and lifestyle property sales. In addition to real estate agency, Bayleys operates property management, valuation, leasing, research and advisory businesses.

Performance

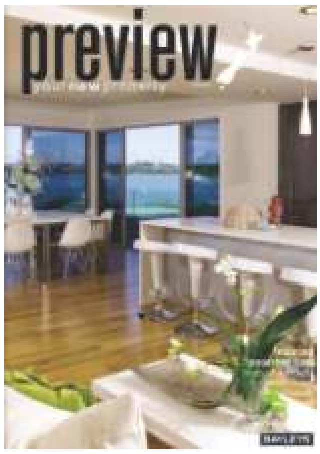
Bayleys recorded strong growth in revenue and market share in the year to 31 December 2011 and achieved targeted profit. Two fully imputed dividends were received in the year to 31 December 2011.

Year to date brokerage commissions have increased markedly in all sectors, and particularly in the commercial, industrial, and rural segments. At the same time the Company has invested to launch new product offerings and has expanded into new market segments. In addition during the year Bayleys acquired an Auckland business, which added 5 new offices operating under the Bayleys' brand.

Bayleys continues to develop its professional property services division, and made a number of high level appointments charged with expanding the division and replicating the success achieved in this area in Wellington.

Outlook

Going into 2012 activity across most sectors is currently accelerating. Activity in the residential property market still remains below long term levels and this market segment is exposed to macro economic factors.



Manager's Report

CAVALIER WOOL HOLDINGS LIMITED

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
December 2010	Wool scouring	Expansion	$3,336 - equity	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 servicing the NZ wool industry. Operating from two sites in Napier and Timaru, CWH is a commission-only scourer, processing greasy wool into clean wool on behalf of wool exporters and carpet makers. As a by-product, wool grease is extracted and exported to global customers who refine it into lanolin for use in cosmetic and pharmaceutical end products.

CWH is owned 50% by listed carpet maker, Cavalier Corporation, 25% by Accident Compensation Corporation and 25% by Direct Capital IV/Pohutukawa II.

Performance

CWH has a 60% market share of the wool scouring market for the year to date. CWH's performance for the year to 31 December 2011 was in line with its prior year comparable, with reduced wool volumes offset by higher wool grease returns.

Wool volumes were weaker across the market during the first half of the year with high wool prices, and the high NZ dollar impacting on manufacturing demand across both New Zealand and Australia, as well as internationally. Wool grease prices have risen considerably and have more than doubled since investment off the back of demand growth in Asia.

Outlook

CWH is operationally leveraged to wool volumes – high, consistent throughput leads to highly efficient operations and significant increases in EBITDA/Kg. Current volumes have been weaker across the market during the first half, however, the peak processing period from January to April has commenced strongly and we expect year end results to be in line with the previous comparable period.

During the reporting period CWH gained Commerce Commission authorisation to acquire the assets of NZAX listed Wool Services International. This initiative continues to be acted on, and if successful, would represent a step-change opportunity for CWH and the scouring industry in New Zealand.

Manager's Report

SCALES CORPORATION LIMITED

www.scalecorporation.co.nz

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
July 2011	Agri-Services	Buyout	$4,998	9.0

Total shareholding managed by Direct Capital 79.2%

Background

Scales is a diversified group involved in horticulture and various primary sectors. Its businesses can be classified into four main divisions: (1) Mr. Apple; (2) storage and logistics (coldstores and bulk liquid storage); (3) Meateor (pet food ingredients); and (4) property.

Performance

Trading results are in line with expectations.

Scales has moved from a June to a December financial year-end. The company targets for the December 2012 year are in line with Direct Capital's base case at the time of our investment, although there remains a level of uncertainty concerning apple industry returns in both 2012 and 2013.

The Company is also focussed on reducing overall debt levels which it expects to achieve via reinvesting earnings and the sale of surplus industrial properties.

Outlook

New Board Members
Scales has secured three high calibre individuals to join the Scales operating boards. Tim Goodacre has become Chairman of Mr Apple; Jon Mayson Chairman of the Storage & Logistics business; and Nick Harris a Director of both Meateor and the Storage & Logistics business.

Turners & Growers Shareholding
In February 2012 Scales announced it had purchased a 10.1% shareholding in NZX-listed Turners & Growers. A majority interest in Turners & Growers has been acquired by listed German agricultural trading company, BayWa. Scales is supportive of Turners & Growers remaining listed on the New Zealand Stock Exchange with strong minority shareholder representation. Scales views its investment in Turners & Growers as an attractive standalone investment. Via Mr Apple, the Company has a strong interest in working with Turners & Growers to consolidate the apple industry and enhance grower and industry returns in areas such as reducing supply chain costs.

Direct Capital has provided Scales with a short term loan of $20.0 million to assist with the funding of the Turners & Growers share purchase which is expected to be repaid via Scales completing a rights issue.

Manager's Report

PF OLSEN GROUP LIMITED

www.pfolsen.co.nz

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
September 2011	Agri-Services	Buyout	$1,772	7.1

Total shareholding managed by Direct Capital 30%

Background

PF Olsen is one of Australasia's largest independent providers of professional forestry services, headquartered in Rotorua.

Performance

The FY11 financial year has now been completed with revenue and earnings ahead of company forecasts and ahead of last year's result. Harvesting management played a major role in the year's out-performance, underpinned by a 7% increase in log volumes which were driven by significantly increased export log prices during the year. Forest management fees, seed & tree-stock sales, and advisory fees were all up against prior year.

Outlook

PF Olsen has budgeted earnings for the December 2012 financial year are in line with 2011. High export log prices achieved in the first half of 2011 have declined considerably as forecast, and it is likely harvest volumes will decline as forest owners leave more trees on the stump. The FY12 budget still compares favourably to Direct Capital's investment case.

PF Olsen commenced management of a major new estate in Australia in December 2011, in a contract that is a milestone in the development of the Australian business. The contract covers property and forest management across more than 600 properties in Victoria, NSW, Tasmania, Queensland and Western Australia. This provides PF Olsen with a strong platform and capability boost for growth in Australia.

Manager's Report

HIWAY GROUP LIMITED

www.hiwaygroup.co.nz

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
December2011	Infrastructure Services	Buyout	$3,646	14.3

Background

Hiway Group is a leading NZ based 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 GeoTechnical 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

In the short time since the Direct Capital investment, Hiway has made good progress in progressing Geotech recent jobs in Christchurch as well as continuing works on the Tui mine site remediation in the Waikato.

Roading and stabilising work has been steady in Auckland and wider NZ. A number of new job enquiries/opportunities continue to be progressed in Queensland, Australia.

Overall the Company's performance has been pleasing as the roading and financial year draws to a close in March 2012.

Outlook

Growth is expected in Australia (largely organically) particularly in flood damaged QLD and more recently NSW. The Geotech vertical stabilizing business will grow in quake damaged Canterbury.

Directors' Report

For the year ended 31 December 2011

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

	Remuneration Rate $	Fess Paid $	Date of appointment
J McDonald	30,000	20,025	04-Nov-08
M Prendergast	30,000	22,500	19-Nov-08
N J Craig	12,500	10,781	19-Nov-08
F M Aldridge	12,500	10,781	19-Nov-08

*Note Directors agreed to a 50% remuneration rate in 2010 while investment activity was low. Full remuneration rates were paid from 1 July 2011.

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 as at 31 December 2011.

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 2011
(Directors holding office as at 31 December 2011)

Investment Holding	J McDonald	M Prendergast	N J Craig	F Aldridge
	No. Securities	No. Securities	No. Securities	No. Securities
Pohutukawa II	100,000	25,000	100,000	
Transaction Services Ltd	20,198	43,349	21,214	
Bayley Corporation Ltd	5,015	5,015	3,115	
Cavalier Wool Holdings Ltd	3,963	3,963	1,567	
Scales Corporation Ltd	28,335	28,334	10,000	
PF Olsen Group Ltd	1,463	1,462	651	
Hiway Group Ltd	41,434	41,433	17,648	

Director

4 April 2012

Date

Director

4 April 2012

Date

Statement of comprehensive income

For the year ended 31 December 2011

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Interest income		37,649	54,835	36,946	54,835
Dividend income		752,059	-	-	-
Change in fair value of investments		914,376	921,884	-	-
Loans to investment companies impairment	*17(b)*	-	-	(2,406,557)	-
Other operating income		-	53,629	1,294,785	389,476
Administrative expenses	*5*	(2,235,408)	(2,021,960)	(2,235,408)	(2,021,960)
Operating (loss)/profit		(531,324)	(991,612)	(3,310,234)	(1,577,649)
Finance expenses - interest		(85,168)	(76,599)	(85,168)	(76,599)
(Loss)/profit before tax		(616,492)	(1,068,211)	(3,395,402)	(1,654,248)
Income tax expense	*6*	-	-	-	-
(Loss)/profit for the year		(616,492)	(1,068,211)	(3,395,402)	(1,654,248)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		(616,492)	(1,068,211)	(3,395,402)	(1,654,248)
Attributable to:					
Equity holders of the parent		(988,844)	(1,654,248)	(3,395,402)	(1,654,248)
Non-controlling interest	*3a(iv)*	372,352	586,037	-	-
(Loss)/profit for the year attributable to the equity holders of stapled securities		(616,492)	(1,068,211)	(3,395,402)	(1,654,248)

Statement of changes in equity

For the year ended 31 December 2011

Consolidated	*Note*	Share capital	Retained losses	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the parent				
Balance at 1 January 2011		16,491,895	(3,550,966)	12,940,929	586,037	13,526,966
Total comprehensive income for the year		-	(988,844)	(988,844)	372,352	(616,492)
Issue of share capital		14,025,000	-	14,025,000	-	14,025,000
Dividends paid		-	-	-	(337,004)	(337,004)
Redemption of preference shares	*7*	(1,352,159)	-	(1,352,159)	-	(1,352,159)
Balance at 31 December 2011		29,164,736	(4,539,810)	24,624,926	621,385	25,246,311
Balance at 1 January 2010		8,241,895	(1,896,718)	6,345,177	-	6,345,177
Total comprehensive income for the year		-	(1,654,248)	(1,654,248)	586,037	(1,068,211)
Issue of share capital		8,250,000	-	8,250,000	-	8,250,000
Balance at 31 December 2010		16,491,895	(3,550,966)	12,940,929	586,037	13,526,966

Parent		Share capital	Retained losses	Total equity
Balance at 1 January 2011		16,491,895	(3,550,966)	12,940,929
Total comprehensive income for the year		-	(3,395,402)	(3,395,402)
Issue of share capital		14,025,000	-	14,025,000
Redemption of preference shares	*7*	(1,352,159)	-	(1,352,159)
Balance at 31 December 2011		29,164,736	(6,946,368)	22,218,368
Balance at 1 January 2010		8,241,895	(1,896,718)	6,345,177
Total comprehensive income for the year		-	(1,654,248)	(1,654,248)
Issue of share capital		8,250,000	-	8,250,000
Balance at 31 December 2010		16,491,895	(3,550,966)	12,940,929

Statement of financial position

For the year ended 31 December 2011

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Assets					
Loans to investment companies	17(b)	-	-	19,268,814	12,611,539
Receivables from investment companies		-	-	1,302,146	-
Investments – equity securities	7	23,511,631	13,533,423	-	-
Total non-current assets		23,511,631	13,533,423	20,570,960	12,611,539
Receivables and prepayments	8	19,814	424,506	6,966	760,353
Cash and cash equivalents	11	1,765,619	125,293	1,765,619	125,293
Total current assets		1,785,433	549,799	1,772,585	885,646
Total assets		25,297,064	14,083,222	22,343,545	13,497,185
Equity					
Issued capital	12	29,164,736	16,491,895	29,164,736	16,491,895
Retained losses		(4,539,810)	(3,550,966)	(6,946,368)	(3,550,966)
Total equity attributable to equity holders of the parent		24,624,926	12,940,929	22,218,368	12,940,929
Non-controlling interest	3a(iv)	621,385	586,037	-	-
Total equity attributable to equity holders of stapled securities	12	25,246,311	13,526,966	22,218,368	12,940,929
Liabilities					
Trade and other payables	13	50,753	22,584	125,177	22,584
Trade payable to Manager	9	-	533,672	-	533,672
Total current liabilities		50,753	556,256	125,177	556,256
Total liabilities		50,753	556,256	125,177	556,256
Total equity and liabilities		25,297,064	14,083,222	22,343,545	13,497,185

For and on behalf of the Board

Director

4 April 2012

Date

Director

4 April 2012

Date

Statement of cash flows

For the year ended 31 December 2011

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Cash flows from operating activities					
Cash receipts from fees		752,059	60,333	378,410	60,333
Dividends received					
Interest received		36,947	68,407	36,947	68,407
RWT refund received		8,841	-	8,841	-
Interest paid		(85,168)	(75,847)	(85,168)	(75,847)
Cash paid to suppliers		(1,810,686)	(2,236,664)	(1,774,041)	(2,236,664)
Net cash from operating activities	*14*	(1,098,007)	(2,183,771)	(1,435,011)	(2,183,771)
Cash flows from investing activities					
Acquisition of investments		(10,415,991)	(12,611,539)	-	-
Realisation of investments	*7*	1,352,159	-	-	-
Loans to investment companies		-	-	(10,415,991)	(12,611,539)
Repayments from investment companies		-	-	1,352,159	-
Net cash from investing activities		(9,063,832)	(12,611,539)	(9,063,832)	(12,611,539)
Cash flows from financing activities					
Proceeds from share calls		14,025,000	8,250,000	14,025,000	8,250,000
Redemption of preference shares	*7*	(1,352,159)	-	(1,352,159)	-
Loans repaid/advanced to related parties		(533,672)	533,672	(533,672)	533,672
Loans advanced by external parties		9,007,033	5,100,000	9,007,033	5,100,000
Loans repaid to external parties		(9,007,033)	(5,100,000)	(9,007,033)	(5,100,000)
Distributions to equity holders		(337,004)	-	-	-
Net cash from financing activities		11,802,165	8,783,672	12,139,169	8,783,672
Net movement in cash and cash equivalents		1,640,326	(6,011,638)	1,640,326	(6,011,638)
Cash and cash equivalents at 1 January 2011		125,293	6,136,931	125,293	6,136,931
Cash and cash equivalents at 31 December	*11*	1,765,619	125,293	1,765,619	125,293

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 25 Investment Companies 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 Company for the year ended 31 December 2011 comprise the Company and 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 4 April 2012.

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").

(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 2011.

(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 15 – Financial risk management

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 25 (2010: 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 25 (2010: 25) companies combining under the stapling arrangement are designated as the Investment Companies who invest in Portfolio Companies.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(ii) Associates

Investments in equity securities, which would normally be classified as investments in associates, are carried at fair value in both the parent and 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 unlisted equity securities are classified as 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.

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.

Investments in unlisted equity securities, which would normally be classified as investments in associates, are carried at fair value and are not equity accounted. This is due to the fact that the Investment Companies are private equity investors.

(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 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 their cost less impairment losses, if any (see accounting policy 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 b), and deferred tax assets (see accounting policy 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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(h) Share capital

(i) 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 $0.10 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 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 provided using the balance sheet liability method, 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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2011.

No new standards or amendments which were mandatory for this reporting year were applicable to the Group.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

No new standards or amendments effective after this reporting date have been early adopted and have not been applied in preparing these financial statements.

None of the new standards or amendments effective after 1 January 2012 is expected to have a significant effect on the financial statements of the Group, except for NZ IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2013 financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

(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 Directors' valuation in the year of acquisition and subsequently by annual valuations carried out in accordance with the valuation principles set out by The Australian Private Equity and Venture Capital Association Limited (AVCAL). Valuations are performed by Direct Capital IV Management Limited (see Note 7, 17).

5. Administrative expenses

	Consolidated		Parent	
	2011	**2010**	**2011**	**2010**
Management fees	1,871,622	1,856,250	1,871,622	1,856,250
Advisory fees	51,597	37,613	51,597	37,613
Directors' fees	63,750	26,719	63,750	26,719
Non-recoverable acquisition costs*	132,591	-	132,591	-
Other administrative expenses	115,848	101,378	115,848	101,378
	2,235,408	2,021,960	2,235,408	2,021,960

*Non-recoverable acquisition costs are for transaction fees that cannot be recovered from portfolio companies

The following items of expenditure are included in administrative expenses:

Auditor's remuneration to KPMG comprises:

Audit of financial statements	25,500	17,916	25,500	17,916
Other audit-related services **	6,087	6,600	6,087	6,600

** Other audit related services include review of interim financial statements.

Notes to the consolidated financial statements

6. Income tax expense

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Income tax expense in statement of comprehensive income		-	-	-	-

Reconciliation of effective tax rate

	Note	2011	2010	2011	2010
(Loss)/Profit before tax		(616,492)	(1,068,211)	(3,395,402)	(1,654,248)
Income tax expense at 28%(2010:30%) tax rate		(172,618)	(320,463)	(950,712)	(496,274)
Non-deductible expenses		37,125	-	37,125	-
Tax exempt income		(256,025)	(276,565)	673,836	-
Imputation credits received		319,010	-	-	-
Tax losses not recognised	*10*	72,508	597,028	239,751	496,274
Total income tax expense in statement of comprehensive income		-	-	-	-

Imputation credits

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Balance at beginning of year		8,841	8,841	8,841	8,841
Imputation credits attached to dividends received		319,201	-	-	-
Imputation credits attached to dividends paid		(141,320)	-	-	-
Balance at end of year		186,722	8,841	8,841	8,841
Imputation credits available to shareholders of the parent company:					
Through the parent company		8,841	8,841	8,841	8,841
Through investment companies		177,881	-	-	-
		186,722	8,841	8,841	8,841

7. Investments – equity securities

(a) Non-current investments

The Group has six investments in unlisted equity securities. Group policy is to carry these investments at fair value with subsequent movements in fair value recognised in profit or loss. As there is 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 using AVCAL guidelines.

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

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 $809,633 (2010: $305,049).

A movement in the adjustment factor of 5% changes the value of the investments by $1,107,916 (2010: $818,581).

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 and the total agrees to the amount showing as loans and receivables in the Parent Company's statement of financial position.

2011

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
Transaction Services Limited *	3rd Party Payment Processing	Jan 2010	11.4%	4,348,348
Bayley Corporation Limited	Real Estate Services	Jun 2010	7.5%	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	6.0%	3,336,366
Scales Corporation Limited	Agri-services	Jul 2011	9.0%	4,997,799
PF Olsen Group Limited	Forestry management	Sept 2011	7.1%	1,772,033
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	14.3%	3,646,159
				21,675,371

2010

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
Transaction Services Limited	3rd Party Payment Processing	Jan 2010	11.8%	5,700,507
Bayley Corporation Limited	Real Estate Services	Jun 2010	7.5%	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	6.0%	3,336,366
				12,611,539

* Transaction Services Limited undertook a share buyback and cancellation in July 2011. Pohutukawa Alpha Limited received $1,352,159 and applied this to reduce its loan with Pohutukawa Private Equity II Limited. A capital return of $1,352,159 was distributed to shareholders in September 2011 by way of preference share redemption.

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 2011 was $23,511,631 (2010: $13,533,423).

Notes to the consolidated financial statements

8. Receivables and prepayments

	Consolidated		Parent	
	2011	2010	2011	2010
GST receivable	12,802	404,039	-	358,774
Taxation receivable	-	8,841	-	8,841
Other receivables due from related parties	-	4,660	-	385,772
Provision for doubtful debts	-	-	-	-
Other receivables	46	-	-	-
Prepayments	6,966	6,966	6,966	6,966
	19,814	424,506	6,966	760,353

As at 31 December 2011, no trade and other receivables are considered past due (2010: $nil).

At 31 December 2010 a GST receivable was reported which was subject to an Inland Revenue Department review into the background structure of Pohutukawa Private Equity II Limited. This review has now been completed with the large majority of GST refunds received. Pohutukawa Private Equity II Limited and IRD have agreed a small adjustment in relation to GST going forward which the Directors accept as appropriate.

9. Trade payable to manager

As at 31 December 2011 the Company owes $Nil to Pohutukawa II Management Limited (2010: $533,672) (refer Note 17). The 2010 balance was subject to interest at variable bank rates and was repaid on 4 July 2011.

10. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

	Consolidated		Parent		
	Note	2011	2010	2011	2010
Opening balance 1 January 2011		1,159,513	562,485	1,058,759	562,485
Tax losses not recognised	*6*	72,508	597,028	239,751	496,274
Closing balance 31 December 2011		1,232,021	1,159,513	1,298,510	1,058,759

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.

Notes to the consolidated financial statements

11. Cash and cash equivalents

	Consolidated		Parent	
	2011	**2010**	**2011**	**2010**
Call deposits	1,115,619	125,293	1,115,619	125,293
Short-term deposits	650,000	-	650,000	-
Cash and cash equivalents in the statement of cash flows	1,765,619	125,293	1,765,619	125,293

Call deposits are held with the National Bank of New Zealand via CIP Cash Management Nominees Limited. The weighted average interest rate for 2011 on call deposits was 2.97% (2010: 2.89%).

Short-term deposits are held with the National Bank of New Zealand via CIP Cash Management Nominees Limited. The weighted average interest rate on short-term deposits was 3.59% (2010: 3.65%).

12. Share capital

Share capital

	Investment Co's		PPE II		PPE II	
Consolidated	Preference shares		Ordinary shares		Preference shares	
In millions of shares	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
On issue at 1 January	2,062.5	2,062.5	82.5	82.5	8,250	8,250
Redemption of shares	-	-	-	-	(135)	-
On issue at 31 December	2,062.5	2,062.5	82.5	82.5	8,115	8,250

Parent

	Ordinary shares		Preference shares	
In millions of shares	**2011**	**2010**	**2011**	**2010**
On issue at 1 January	82.5	82.5	8,250	8,250
Redemption of shares	-	-	(135)	-
On issue at 31 December	82.5	82.5	8,115	8,250

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

At 31 December 2011, the share capital of the Company comprised 82,500,000 ordinary shares (2010: 82,500,000), and 8,114,784,100 preference shares (2010: 8,250,000,000). In addition, there are 2,062,500,000 (2010: 2,062,500,000) preference shares in the 25 (2010: 25) Investment Companies (82,500,000 in each).

No class of share has a par value. Ordinary shares and Investment Company preference shares have been allotted at nil value. The Pohutukawa Private Equity II shares (stapled shares) have been issued at $1.00 per share, paid to $0.37, of which $0.10 was paid on allotment, and further calls of $0.10 paid on a call dated 9 August 2010 and $0.17 on a call dated 22 September 2011. Subsequent calls will be in tranches, for a minimum of $0.10 per share and subject to 30 days advance notice. Subject to the Boards discretion, any residual balance will be payable in full on the fifth anniversary of allotment.

Notes to the consolidated financial statements

12. Share capital (continued)

As at 31 December 2011, shareholders have a commitment to fund a further $0.63 per share totalling $51.975 million (2010: $0.80 per share totalling $66 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. 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	
	2011	2010	2011	2010
Trade payables and accrued expenses	50,753	22,584	125,177	22,584
	50,753	22,584	125,177	22,584

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

	Consolidated		Parent	
	2011	2010	2011	2010
Profit / (loss) for the year	(616,492)	(1,068,211)	(3,395,402)	(1,654,248)
Adjustments for:				
Change in fair value of investments	(914,376)	(921,884)	2,406,557	-
Change in trade and other receivables	395,814	(188,464)	(916,375)	(524,311)
Change in income tax receivable	8,841	-	8,841	-
Change in trade payables and accruals	28,206	(5,212)	461,368	(5,212)
Net cash flow to/(from) operating activities	(1,098,007)	(2,183,771)	(1,435,011)	(2,183,771)

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 the National Bank of New Zealand 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, including derivative financial instruments, 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 invest excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required. The Group may also borrow short-term funds at floating rates due to the short-term nature of these borrowings.

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, short-term deposits and loans and borrowings. At the end of the reporting period the effective interest rates for bank balances for 2011 is 3.00% (2010: 3.00%), short-term deposits for 2011 is 3.90% (2010: 3.50%) and loans and borrowings for 2011 is 4.73% (2010: 5.14%).

Bank balances reprice daily and short-term deposits reprice within 6 months.

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. 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 2011				
Cash and cash equivalents	*11*	1,765,619	-	1,765,619
Total		**1,765,619**	-	**1,765,619**
Consolidated 2010				
Cash and cash equivalents	*11*	125,293	-	125,293
Total		**125,293**	-	**125,293**
Parent 2011				
Cash and cash equivalents	*11*	1,765,619	-	1,765,619
Total		**1,765,619**	-	**1,765,619**
Parent 2010				
Cash and cash equivalents	*11*	125,293	-	125,293
Total		**125,293**	-	**125,293**

Loans to investment 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

In managing interest rate risk the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, changes in interest rates will have an impact on profit.

At 31 December 2011 it is estimated that a general increase of 1.0% in interest rates on its cash and cash equivalents would increase the Group's profit before income tax by approximately $8,796 (2010: $14,096) over a one-year period.

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, $0.37 per share has been paid on the $1.00 share capital (2010: $0.20 per share). The remaining $0.63 (2010: $0.80) will be called as required in accordance with the terms of the prospectus.

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 2011						
Assets						
Cash and cash equivalents	*11*	-	1,765,619	-	1,765,619	1,765,619
Receivables	*8*	-	12,848	-	12,848	12,848
Investments – unlisted equity securities		23,511,631	-	-	23,511,631	23,511,631
Total assets		**23,511,631**	**1,778,467**	-	**25,290,098**	**25,290,098**
Liabilities						
Trade and other payables	*13*	-	-	50,753	50,753	50,753
Trade payable to manager	*9*	-	-	-	-	-
Total liabilities		-	-	**50,573**	**50,573**	**50,573**

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Consolidated 2010						
Assets						
Cash and cash equivalents	*11*	-	125,293	-	125,293	125,293
Receivables	*8*	-	424,506	-	424,506	424,506
Investments – unlisted equity securities		13,533,423	-	-	13,533,423	13,533,423
Total assets		**13,533,423**	**549,799**	-	**14,083,222**	**14,083,222**
Liabilities						
Trade and other payables	*13*	-	-	22,584	22,584	22,584
Trade payable to manager	*9*	-	-	533,672	533,672	533,672
Total liabilities		-	-	**556,256**	**556,256**	**556,256**

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 2011						
Assets						
Cash and cash equivalents	*11*	-	1,765,619	-	1,765,619	1,765,619
Loans to investment companies	*17*	-	19,268,814	-	19,268,814	19,268,814
Receivables	*8*	-	1,302,147	-	1,302,147	1,302,147
Total assets		-	**22,336,580**	-	**22,336,580**	**22,336,580**
Liabilities						
Trade and other payables	*13*	-	-	125,177	125,177	125,177
Trade payable to manager	*9*	-	-	-	-	-
Total liabilities		-	-	**125,177**	**125,177**	**125,177**

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Parent 2010						
Assets						
Cash and cash equivalents	*11*	-	125,293	-	125,293	125,293
Loans to investment companies	*17*	-	12,611,539	-	12,611,539	12,611,539
Receivables	*8*	-	760,353	-	760,353	760,353
Total assets		-	**13,497,185**	-	**13,497,185**	**13,497,185**
Liabilities						
Trade and other payables	*13*	-	-	22,584	22,584	22,584
Trade payable to manager	*9*	-	-	533,672	533,672	533,672
Total liabilities		-	-	**556,256**	**556,256**	**556,256**

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 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments in unlisted equity securities	-	-	23,511,631	23,511,631
31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments in unlisted equity securities	-	-	13,533,423	13,533,423

There have been no transfers between levels during the year.

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

Investments	**2011**	**2010**
Opening balance	13,533,423	-
Total gains:		
In profit or loss	914,376	921,884
In other comprehensive income	-	-
Investments at cost during the year	10,415,991	12,611,539
Capital returns	(1,352,159)	-
Closing balance	23,511,631	13,533,423

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

Investments	**2011**	**2010**
Total gains included in profit or loss for the year	914,376	921,884
Total gains for the year included in profit or loss for assets held at the end of the reporting period	914,376	921,884

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.

Notes to the consolidated financial statements

16. Capital commitments and contingencies

An earnout payment, based on performance, may be due and payable to the Manager at a future date.

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

Direct Capital IV Management Limited employees are 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 $1,871,622 (2010: $1,856,250).
- Legal and accounting expenses incurred in relation to investment activity by Direct Capital IV Management Limited of $16,935 (2010: $18,837) were reimbursed by Pohutukawa Private Equity II Limited.
- Surplus cash of $650,000 (2010: $nil) has been invested with the National Bank of New Zealand via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Loans advanced to Investment Companies (see below).

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

During the year further loans were advanced by the parent to Investment Companies taking the total to $21,675,371 as at 31 December 2011 (2010: $12,611,539). Loans to Investment Companies are non-interest bearing, and are used to acquire long-term equity investments. Loans are repayable on demand.

Loans have been impaired in the parent financial statements in the current year, where the value of the investment held by the investment companies is less than the cost of the investment. This does not affect the consolidated financial statements.

As at 31 December 2011 there were no trade payables to Pohutukawa II Management Limited (2010: $533,672).

c) Transactions with key management personnel

	Consolidated		Parent	
	2011	2010	2011	2010
Directors fees (total remuneration)	63,750	26,719	63,750	26,719

The balance owing to key management personnel at 31 December 2011 is $23,188 (2010: $nil).

Notes to the consolidated financial statements

18. Subsequent events

- A loan to Scales Corporation Limited was made in the first quarter of 2012 to the value of $2,275,000. This was funded using both cash resources and Pohutukawa Private Equity II Limited's bank credit facility.
- In addition a third call of $0.10 was made on 1 March 2012 and payable on 2 April 2012. This call raised a further $8,250,000 in capital.

19. Group entities

Investment Companies	Country of incorporation	Ownership interest* 2011	Ownership interest* 2010
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%	0%
Pohutukawa Xi Limited ("Xi")	New Zealand	0%	0%
Pohutukawa Omicron Limited ("Omicron")	New Zealand	0%	0%
Pohutukawa Pi Limited ("Pi")	New Zealand	0%	0%
Pohutukawa Rho Limited ("Rho")	New Zealand	0%	0%
Pohutukawa Sigma Limited ("Sigma")	New Zealand	0%	0%
Pohutukawa Tau Limited ("Tau")	New Zealand	0%	0%
Pohutukawa Upsilon Limited ("Upsilon")	New Zealand	0%	0%
Pohutukawa Phi Limited ("Phi")	New Zealand	0%	0%
Pohutukawa Chi Limited ("Chi")	New Zealand	0%	0%
Pohutukawa Psi Limited ("Psi")	New Zealand	0%	0%
Pohutukawa Omega Limited ("Omega")	New Zealand	0%	0%
Pohutukawa Alpha-Pi Limited ("Alpha-Pi")	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.

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 14 to 33. The financial statements comprise the statements of financial position as at 31 December 2011, 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.

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). 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. There are however certain trading restrictions on dealings which partners and employees of our firm have with 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 14 to 33:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 31 December 2011 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

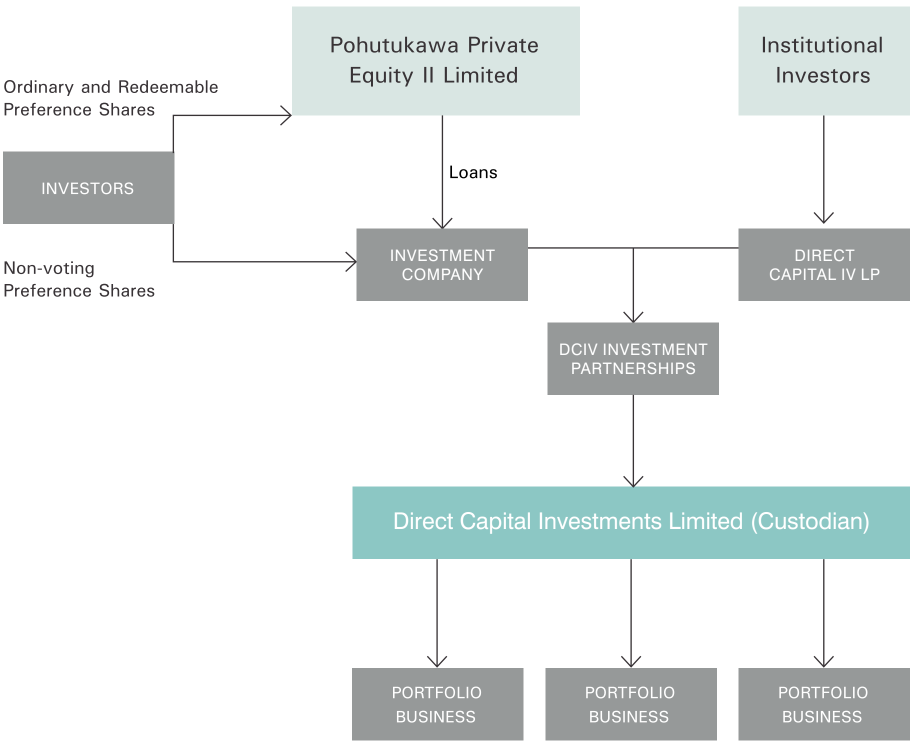
4 April 2012

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 25 special purpose vehicles (investment companies), which invest in the portfolio companies. These are called stapled securities. There are 82.5 million ordinary $1 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 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 content of this 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 independents, 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 who has 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 Solid Energy New Zealand Limited; Horizon Energy Distribution Limited and he is also 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 JOHN PRENDERGAST
(Independent Director)

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

The Pohutukawa II Board

NEIL JOHN 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 310 staff with 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 a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited, the New Zealand Social Infrastructure Fund Limited, as well as being Chairman of NZX Listed Comvita Limited and a director of a number of privately held companies.

FRANK MAURICE ALDRIDGE
(Non Executive Director)

Frank is Managing Director of Craigs Investment Partners, having been appointed in 2005, previously working for some eight years in various roles at Craigs Investment Partners. During this time, Frank has been involved in all facets of private wealth management as well as a number of NZX listings and capital raisings. Prior to joining Craigs Investment Partners, Frank worked at the New Zealand Stock Exchange.

Frank is a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited. He is on the board of a number of Craigs Investment Partners subsidiaries and is also Chairman of Priority One Limited, the Tauranga and Western Bay Economic Development Agency, and Chairman of the Securities Industry Association.

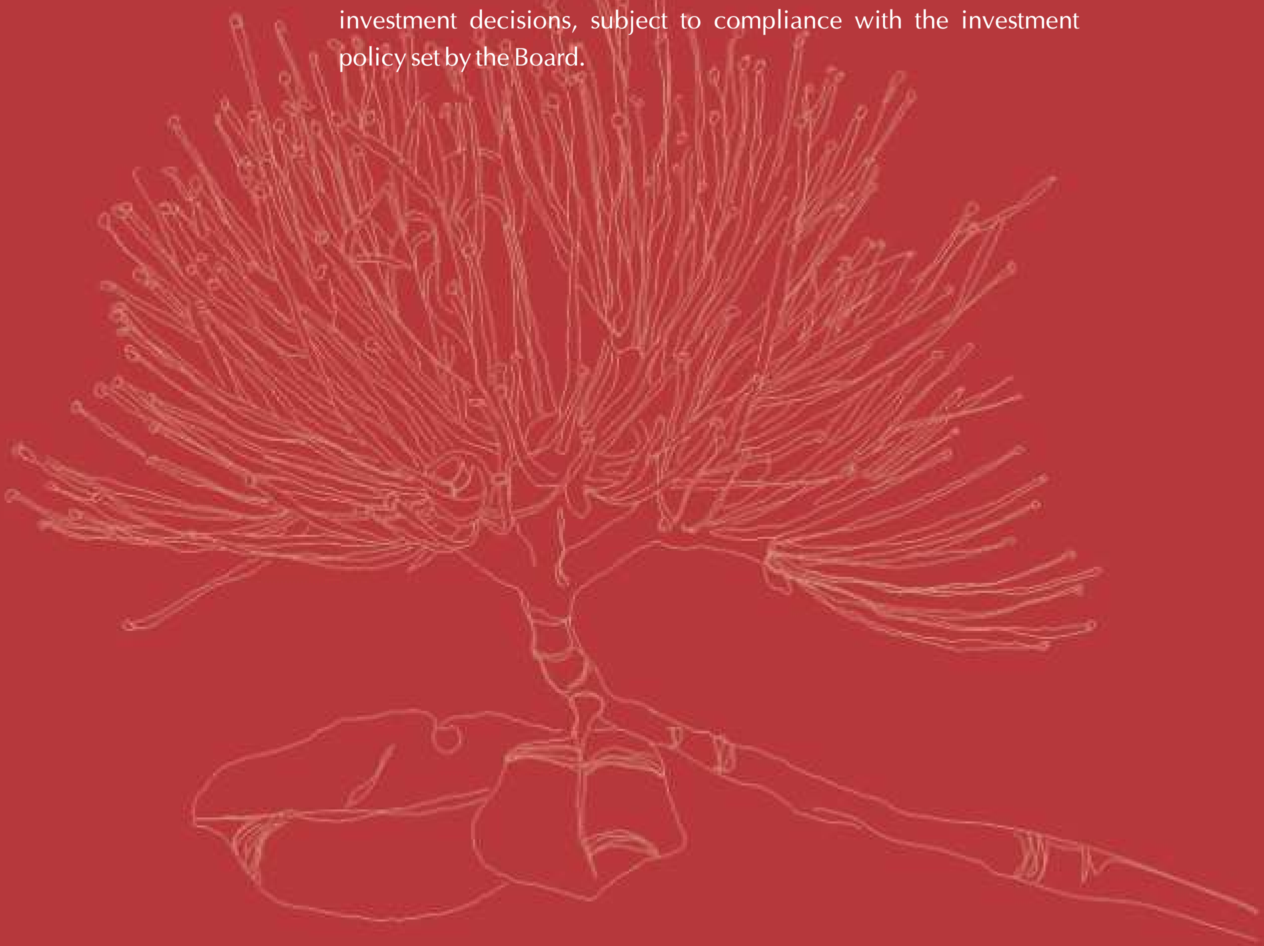
Committees

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 LIMITED

John McDonald
Neil Craig
Maurice Prendergast
Frank Aldridge

The Directors can be contacted at Pohutukawa's registered office address set out below.

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