Annual Report

For the Year Ended 31 December 2016

Pohutukawa
PRIVATE EQUITY II LIMITED

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Report to Shareholders

April 2017

Dear Shareholder

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

Pohutukawa II Fund

Pohutukawa II offer raised $82.5 million of Committed Capital in February 2009. Pohutukawa II co-invests with the Direct Capital IV Fund which together totals $325 million. Pohutukawa II has called $51.1 million to the end of the financial year 31 December 2016. 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.

With the realisation of our residual shareholding in Scales Corporation (Scales), Pohutukawa II has six remaining investments at the end of 2016.

Portfolio Performance

During the year our residual shareholding in Scales Corporation was realised. China Resources acquired 21,500,000 shares in Scales (representing 15.38% of the total shares in Scales) from Direct Capital Investments Limited. This included Pohutukawa II's remaining 2.8% shareholding. Settlement occurred 29 March 2016. This, together with imputed dividends resulted in a 10.2 cps gross distribution to Pohutukawa II shareholders on 15 April 2016.

During the June 2016 quarter Direct Capital negotiated the sale of the large majority of George H Investment's (GHI) shares in T&G Global Limited to Golden Wing Mau Agricultural Produce Corporation (Golden Wing Mau) at $2.95 per share. Pohutukawa II made a gross distribution of 3.9 cps ($3.2 million) to shareholders on 17 November 2016.

Based on distributions made to date the internal rate of return after earn out is 15.8% to 31 December 2016.

All portfolio companies are pursuing growth strategies. Hiway Group is experiencing strong levels of activity in New Zealand stabilisation work, particularly in Auckland for both road maintenance and residential sub-divisions and making positive progress in Australia. Cavalier Wool Holdings and Wool Services International completed their merger in December following a three year appeals process; activity for PF Olsen remains strong with resilient log market conditions; and Bayley's continued its strong performance in a buoyant property market. Energyworks diversified into new sectors however continues to be impacted by weakness in the oil and gas industry. The residual assets of GHI will be managed to maximise value, with the proceeds returned to shareholders as realised.

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

Distributions to Shareholders

During 2016 Pohutukawa II made gross distributions of $11.6 million, equivalent to 14.1 cps. The Scales residual investment contributed $8.0 million of this distribution. You will recall that in August 2014 capital proceeds of $12.1 million from the sale of 66% of Pohutukawa II's shareholding in Scales were distributed.

From inception to the end of 2016 Pohutukawa II has made gross distributions totalling $69 million, equivalent to 83.7 cps. This means shareholders have now received well in excess of their original capital contribution of 62 cps.

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

Table 1 - Summary of Investor Returns

Investors Return to 31 December 2016		
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**
Gross Return		**$ 0.84**
Assessed Net Asset Value 31 December 2016*		**$ 0.27**
Estimated Total Gross Return		**$ 1.11**

** Includes provision for earn out.*

Report to Shareholders

Portfolio Company Investments

The investment cost of the current portfolio was $20.5 million as shown in *Table 2* below.

We made our last direct investment into Energyworks in 2014 for an amount of $5.2 million.

Investment Opportunities

No new follow-on investments were completed during the year. 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 portfolio company investments show a good spread across industry sectors.

The investments (at cost) and cash weightings at 31 December 2016 are shown in *Chart 1*, while *Chart 2* shows the investment portfolio's industry sector weightings at cost.

Table 2 - Pohutukawa II Investments at cost to 31 December 2016

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	Agriculture	$3,336	3.3
George H Investments	22 July 2011	Investment Assets	$1,642	9.4
PF Olsen Group	15 Sep 2011	Forestry Services	$2,574	9.5
Hiway Group	30 Dec 2011	Infrastructure	$4,153	14.3
Energyworks Holdings	31 Jan 2014	Energy Services	$5,180	15.8
Total Investment Cost			**$20,460**	

** including loans to portfolio companies*

Report to Shareholders

Chart 1 - *Pohutukawa II investments at cost to 31 December 2016*

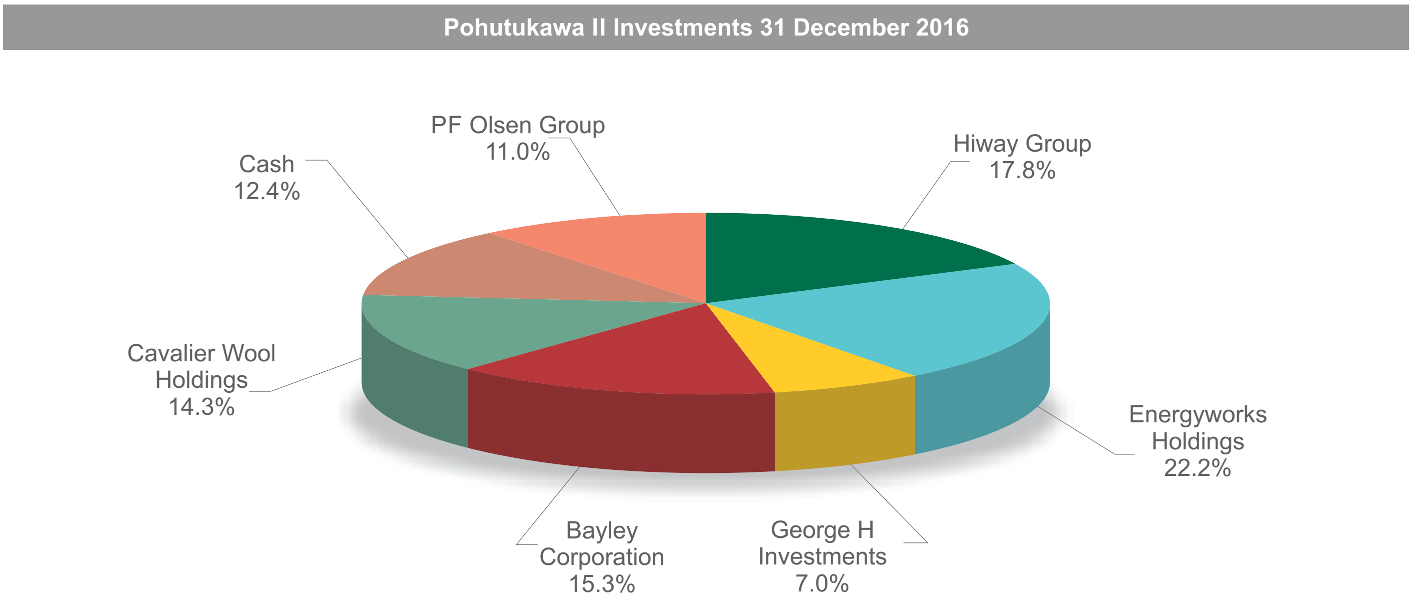
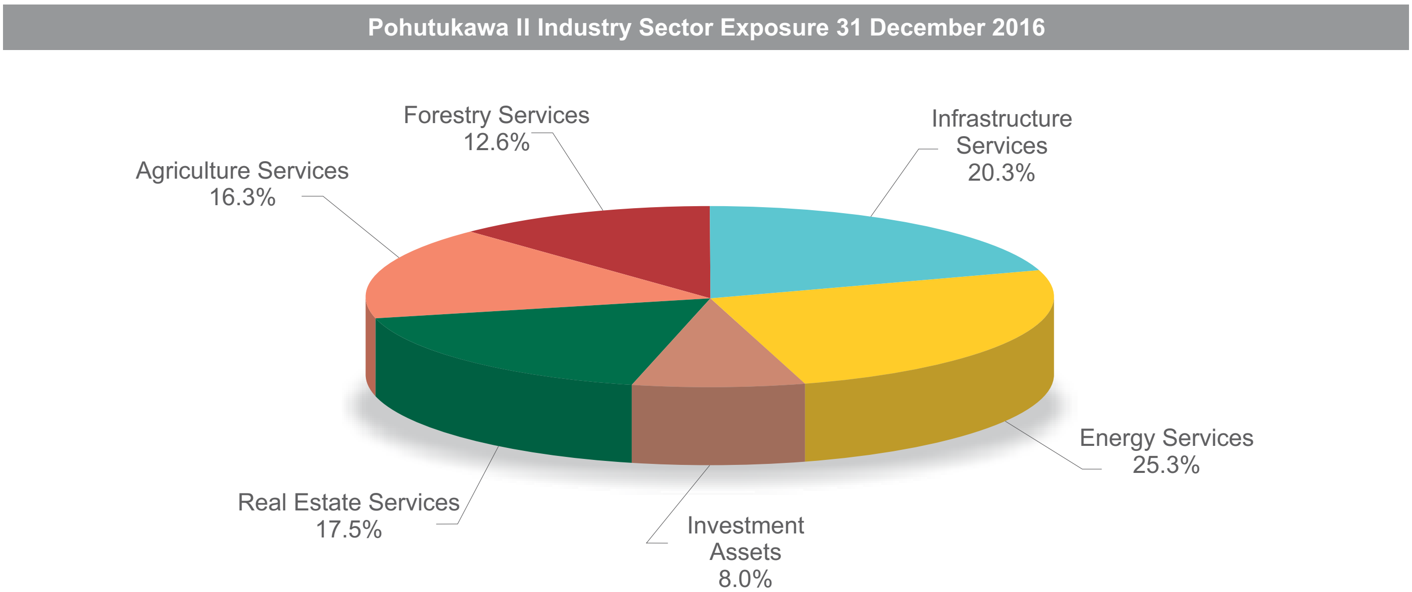


Chart 2 - *Pohutukawa II Industry sector exposure at cost*



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 $25.2 million at 31 December 2016 compared to the investment cost of $20.5 million (including loans to portfolio companies). Shareholders have received distributions of $69 million. Overall the portfolio return performance to date has been pleasing.

Report to Shareholders

Annual Financial Statements 31 December 2016

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

As at 31 December 2016 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At balance date shareholders' funds were $22.5 million, equivalent to a net asset backing of 27 cps. Pohutukawa II is in a strong financial position and at 31 December 2016 the Fund had no debt.

Assets comprised:

- Investments & loans $25.2 million
- Cash $2.9 million

Income was derived from interest of $118,158 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 2016. There was a $5.2 million uplift in fair value of investments. There was a gain on sale of $328,995 resulting from the Scales realisation.

Administrative expenses were $1.2 million (2015: $1.3 million). Of the total administrative expenses, management fees were $995,088 (2015: $1.1 million) and director' fees $85,000. The movement in earn out was $1.1 million compared to the 2015 movement of $8.6 million. Earn out of $4.1 million was paid during the financial period. Earn out is calculated at 20% of the net returns of Pohutukawa II provided first that shareholders have received back in distributions their original investment plus a pre-tax compound return of 8% per annum.

The profit for the period was $5.3 million (2015: $10.6 million)

Table 3 shows the Pohutukawa II Financial Performance Summary for the year ended 31 December 2016.

Table 3 - Pohutukawa II Financial Performance Summary

Pohutukawa II Financial Performance Summary For the year ended 31 December 2016		
	2016 **$000**	**2015** **$000**
Operating Results		
Interest income	118	112
Dividend income	1,958	1,609
Change in fair value of investments	5,218	4,579
Gain on sale of investments	329	14,240
Administrative Expenses	(1,203)	(1,300)
Earnout provision	(1,130)	(8,607)
Profit for the year	5,290	10,633
Share performance		
Stapled Securities on issue	82,500,000	82,500,000
*Estimated Net Asset backing-cents per share	$0.27	$0.34

** Includes provision for earn out*

The Manager

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

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 envisaged in the medium term, although this is reviewable.

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 2016 the last sale price for Pohutukawa II shares was 23 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 II are:

Date: **Tuesday, 23 May 2017**
Time: **2.45pm**
Place: **Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland**
RSVP By 12 May 2017. Contact Peter Lalor on 07 927 7927 or enquiries@pohutukawafund.co.nz

We encourage you to attend both Pohutukawa I & II meetings and we look forward to seeing you there. The Pohutukawa I meeting starts at 2.30pm.

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

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

Yours sincerely
POHUTUKAWA PRIVATE EQUITY II LIMITED

John McDonald
Chairman

Manager's Report on Portfolio Companies

The Manager is very pleased to report on another successful portfolio performance for the year ended 31 December 2016.

2016 was very positive for the portfolio which enabled two distributions to Pohutukawa II shareholders during the year, totalling 14.1 cps gross. The highlight of the year was the realisation of the residual investment in Scales Corporation and its subsequent capital return to investors in April 2016. The distribution's to shareholders during the year mean Pohutukawa II has distributed gross proceeds of 83.7 cps, well in excess of the 62 cps capital contribution, a pleasing result for the fund, especially in light of the remaining portfolio comprising a further five operating businesses.

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

- Bayley's continues to look for expansion opportunities in the industry;
- Cavalier Wool has completed its merger with Wool Services International, the wool scouring division of Lempriere;
- Hiway Group expansion into Victoria and NSW;
- PF Olsen continues to perform strongly in a buoyant log export market;
- George H Investments is making good progress with initiatives to realise its various property assets;
- Energyworks has diversified into new revenue streams however continues to be negatively impacted by weakness in the energy sector.

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 properties, and high-value residential property sales. In addition to real estate agency, Bayleys offers facilities and asset management, valuation, leasing, research and advisory services.

Performance

Bayleys operates with a 31 March financial year end and its financial performance for the nine month period to December 2016 was strong, both ahead of expectations and the prior year comparative. Whilst the implementation of increased Loan to Value Ratio restrictions last year has impacted on aggregate residential activity, turnover in higher value brackets continue to perform with consistency. A series of organic growth initiatives, investments and M&A initiatives saw Bayleys lift its residential market share substantially during 2016.

Bayleys' Commercial and Industrial division performed well during the year, and continued a trend of strong growth over recent years. Commercial and industrial's performance is charactered by good yields on the back of low vacancy rates as New Zealand's growing economy has led to employment growth and the demand for more space. Bayleys asset management and professional services business has grown strongly, benefiting from the same themes driving commercial and industrial activity and by increasing its market share in the sector.

The business completed a number of investments and acquisitions during 2016, and made a number of fully imputed dividend distributions during the year.

Outlook

Indications are strong that Bayleys will complete its FY17 financial year well ahead of expectation and the prior year. While the residential market has softened and is subject to external events Bayleys' performance continues to be strong, and the wider Bayleys' platform benefits from its diversified exposure to commercial, industrial, and rural sales and with a large asset management business. Bayleys continues to be the momentum player in the New Zealand property services sector.

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 Wool Services International (WSI) in December 2016, CWH is the single scouring processor of New Zealand wool. Operating from sites in Napier and Timaru, CWH processes greasy wool on behalf of wool exporters and carpet makers converting it to clean wool (removing grease and contaminants) and pressing and packing it for either local conversion into carpet, or export shipment. As a by-product, wool grease is extracted and exported to global customers who further refine it and convert it to lanolin, cholesterol and Vitamin D3 for use in cosmetic and pharmaceutical end products.

Performance

The merger of CWH with the scouring subsidiaries of WSI completed in December 2016, has been the culmination of a three year process. Its completion represents an important milestone for the business.

Wool volume production remains in line with forecasts however processing volumes in the current year are below the prior comparative period reflecting reduced clearance of wool through the auction system from growers reluctant to accept lower commodity prices. Commodity prices have reduced as a result of reduced international demand for coarse wool and price competition out of the UK market that has benefited from a lower currency. As a result there has been a material increase in inventory levels of wool within the grower system and while this has a negative earnings impact in the current year, the impact is expected to reverse in future periods as inventory is released for sale, processing and export.

The wool grease market, an important revenue line for CWH, remains steady in both volume demand and pricing. The company continues to pursue strategic initiatives to improve earnings from wool grease.

Outlook

Following the merger, the key business focus is to achieve the operational synergies from reducing the number of processing plants and improving the cost structure of the business.

Manager's Report on Portfolio Companies

GEORGE H INVESTMENTS LIMITED

George H
Investments Ltd

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
July 2011	Agri-Services	Buyout	$1,642	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 are currently:

- Land and buildings at three industrial parks (Whakatu and Groome Place in Hawke's Bay and Silverstream in Mosgiel);
- Land at Canada Crescent, Christchurch; and
- 1,027,632 T&G Global shares.

Performance

Whakatu Industrial Park

Outstanding options over two sites were exercised and payment has been received. Remaining titles are due to be issued and marketing of these sites will occur as titles are issued.

Groome Place, Hawkes Bay

Outstanding options over two sites were exercised and payment has been received. Construction work required to obtain a title for the final 8 hectares has commenced.

Silverstream Industrial Park

GHI is undertaking a process to sell individual titles. Progress is expected to be made over the next six months.

Canada Cres, Christchurch

Marketing of the site will commence when title is issued.

T&G Global Limited

The Manager continues to monitor company and share price performance.

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

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
September 2011	Agri-Services	Buyout	$2,574	9.5*

* Total shareholding managed by Direct Capital 40.0%

Background

PF Olsen is 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 6.5 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 2016 financial year resulted in another strong performance with the confluence of two important events; a record financial year and a record low level of health and safety incidents. The excellent health and safety performance achieved in PF Olsen's business and across +100 individual contractor companies engaged by the business reflects a commitment to HSE excellence and recognition that HSE performance is a significant competitive advantage in today's regulatory environment.

The 2016 year could be characterised as a year of relatively stable log markets and a rising biological level of wood available for harvest in New Zealand. Australian operations were similarly strong during the year and the business secured a significant new asset management contract for a large institutional owner.

The business continues to be cash generative and made two substantial dividend distributions during the year.

Outlook

Log market conditions continue to be stable and provide a positive catalyst for harvesting management operations. The level of wood available for harvest is expected to increase substantially over the coming years which will benefit the profitability of PF Olsen. The emission trading system is under review and carbon prices have increased strongly over the last twelve months and interest in replanting and new afforestation projects are increasing.

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	$4,153	14.3*

* Total shareholding managed by Direct Capital 60.0%

Background

Hiway Group is a specialist Australasian roading and infrastructure services contractor, including geotechnical services.

Performance

For the nine months ended 31 December 2016[1], both revenue and earnings have exceeded expectations, and the prior comparable period. Other key points to note for the nine months to 31 December 2016 include:

- The company has benefited from continuing strong levels of activity for stabilisation solutions in New Zealand, in particular in relation to Auckland residential sub-divisions;
- In line with expectation, the Australian operations achieved a positive earnings contribution; and
- There is a growing pipeline of opportunities for geotechnical services, in particular in relation to ground improvement solutions required in Kaikoura and surrounding areas.

Outlook

Hiway continues to benefit from the ongoing growth in sub-division development in the upper North Island which is forecast to continue over the next several years.

Management focus is to leverage opportunities from a growing number of new projects in infrastructure, construction and rail in the North Island.

Hiway needs to invest in new plant and processing capacity to meet forecast strong growth in both significant road projects and residential growth. This will be critical over the next two years to continue to position the business as a preferred sub-contractor.

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

Manager's Report on Portfolio Companies

ENERGYWORKS HOLDINGS LIMITED

www.energyworks.net.nz

Date of Investment	Industry Sector	Stage	Total Investment Cost $000	Shareholding %
January 2014	Infrastructure Services	Buyout	$5,180	15.8*

* Total shareholding managed by Direct Capital 66.5%

Background

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

Performance

Energyworks financial performance during FY16 was in line with expectation and well ahead of the previous financial year. The business undertook large and significant maintenance projects across a range of customer sites, both in the energy, fertiliser and petrochemical sectors on both onshore and offshore locations. Energyworks' industrial coatings business continues to perform well and capture market share in the Taranaki region.

Greenfield and capital expansion work remains extremely weak on the back of continued low energy prices.

Energyworks continues to undertake a large number of small brownfield modification projects however the market for these activities remains tight and competitively tendered.

Outlook

While Energyworks has a good level of recurring maintenance work it continues to be impacted by project deferrals. In a weak environment this has a significant impact on the business and requires the close management of all resources. The business expects the 2017 financial year will be challenging as key projects are delayed and an inconsistent level of workload is expected throughout the period.

Directors' Report

For the year ended 31 December 2016

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

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

Entries recorded in the interests register

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

Directors' shareholdings and dealings in Pohutukawa II at 31 December 2016

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 2016

(Directors holding office at 31 December 2016)

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	18,657	18,656	6,584	12,493
PF Olsen Group Ltd	2,077	2,076	924	924
Hiway Group Ltd - equity	39,028	39,026	11,914	16,623
Hiway Group Ltd - debt	8,125	8,124	2,480	3,461
Energyworks Holdings Ltd - equity	52,699	52,699	-	30,000
Energyworks Holdings Ltd - debt	6,161	6,161	-	3,507

Director

29 March 2017

Date

Director

29 March 2017

Date

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016	2015
Interest income		118,158	111,501
Dividend income		1,957,982	1,608,863
Change in fair value of investments		5,218,279	4,579,057
Gain on realisation of investments	*7(d)*	328,995	14,240,059
Movement in earnout provision	*14*	(1,130,323)	(8,606,764)
Administrative expenses	*5*	(1,203,210)	(1,299,807)
Profit before tax		5,289,881	10,632,909
Income tax expense	*6*	-	-
Profit for the year		5,289,881	10,632,909
Other comprehensive income for the year		-	-
Total comprehensive income for the year		5,289,881	10,632,909
Attributable to:			
Equity holders of the parent		(688,377)	(7,972,685)
Equity holders of the investment companies	*3a(iv)*	5,978,258	18,605,594
Profit and total comprehensive income for the year attributable to the equity holders of stapled securities		5,289,881	10,632,909

Statement of changes in equity

For the year ended 31 December 2016

	Note	Attributable to equity holders of the parent			Attributable to	
		Share capital	Retained losses	Total	equity holders of the investment companies	Total equity
Balance at 1 January 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
Balance at 1 January 2015		35,048,542	(5,509,460)	29,539,082	14,035,290	43,574,372
Total comprehensive income for the year		-	(7,972,685)	(7,972,685)	18,605,594	10,632,909
Issue of share capital		4,125,000	-	4,125,000	-	4,125,000
Redemption of share capital	*12*	(5,383,431)	-	(5,383,431)	-	(5,383,431)
Distributions to equity holders	*12*	-	-	-	(24,588,075)	(24,588,075)
Balance at 31 December 2015		33,790,111	(13,482,145)	20,307,966	8,052,809	28,360,775

Statement of financial position

As at 31 December 2016

	Note	2016	2015
Assets			
Loans to portfolio companies	*9*	1,257,092	1,325,560
Investments – equity securities	*7(c)*	23,976,380	31,579,226
Total non-current assets		25,233,472	32,904,786
Receivables and prepayments	*8*	7,910	8,294
Cash and cash equivalents	*11*	2,903,619	4,106,687
Total current assets		2,911,529	4,114,981
Total assets		28,145,001	37,019,767
Equity			
Issued capital	*12*	32,187,450	33,790,111
Retained losses		(14,170,522)	(13,482,145)
Total equity attributable to equity holders of the parent		18,016,928	20,307,966
Equity attributable to equity holders of the investment companies	*3a(iv)*	4,452,186	8,052,809
Total equity attributable to equity holders of stapled securities		22,469,114	28,360,775
Liabilities			
Trade and other payables	*13*	51,592	52,228
Total current liabilities		51,592	52,228
Earnout provision	*14*	5,624,295	8,606,764
Total non-current liabilities		5,624,295	8,606,764
Total liabilities		5,675,887	8,658,992
Total equity and liabilities		28,145,001	37,019,767

For and on behalf of the Board

Director

29 March 2017

Date

Director

29 March 2017

Date

Statement of cash flows

As at 31 December 2016

	Note	2016	2015
Cash flows from/(to) operating activities			
Dividends received		1,957,982	1,608,863
Interest received		118,158	122,095
Cash paid to suppliers		(1,203,462)	(1,300,395)
Distribution of earnout	14	(4,112,792)	-
Net cash from/(to) operating activities	15	(3,240,114)	430,563
Cash flows from /(to) investing activities			
Acquisition of investments		-	(85,906)
Realisations from investments		13,150,120	27,778,808
Repayment of loans to portfolio companies	9	68,468	-
Net cash from investing activities		13,218,588	27,692,902
Cash flows from /(to) financing activities			
Proceeds from share calls		-	4,125,000
Redemption of preference shares	12	(1,602,661)	(5,383,431)
Distributions to equity holders	12	(9,578,881)	(24,588,075)
Net cash from/(to) financing activities		(11,181,542)	(25,846,506)
Net movement in cash and cash equivalents		4,106,687	2,276,959
Cash and cash equivalents at 1 January		(1,203,068)	1,829,728
Cash and cash equivalents at 31 December	11	2,903,619	4,106,687

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 (2015: 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 2016 comprise the Company and 12 (2015: 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 29 March 2017.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

These financial statements are for the year ended 31 December 2016.

(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 (2015: 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 for the purpose of preparing consolidated financial

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(i) Stapled securities (continued)

statements. The 12 (2015: 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. Calls are made in tranches and will be for a minimum of $0.05 per share.

(ii) Preference share capital

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

(iii) Repurchase of share capital

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

(iv) Dividends

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

(i) Loans and borrowings

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

(j) Trade and other payables

Trade and other payables are stated at cost.

(k) Revenue

(i) Services rendered

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

(ii) Equity investments

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

(iii) Interest income

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

(l) Income tax

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

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

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

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

(m) New standards and pronouncements relevant to the Group

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

NZ IFRS 9 – Financial Instruments – effective 1 January 2018. This standard introduces new requirements for the classification and measurement of financial assets based on

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*
(m) New standards and pronouncements relevant to the Group *(continued)*

the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

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

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

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	2016	2015
Management fees	*17(b)*	995,088	1,108,611
Directors' fees	*17(c)*	85,000	85,000
Other administrative expenses		123,122	106,196
		1,203,210	1,299,807

The following items of expenditure are included in administrative expenses:

	2016	2015
Auditor's remuneration to KPMG comprises:		
Audit of financial statements	30,428	30,554
Review of interim financial statements	8,021	7,245
Review of earnout	3,623	-
	42,072	37,799

Notes to the consolidated financial statements

6. Income tax expense

	Note	2016	2015
Income tax expense in statement of comprehensive income		-	-

Reconciliation of effective tax rate

	Note	2016	2015
Profit before tax		5,289,881	10,632,909
Income tax expense at 28% tax rate		1,481,167	2,977,215
Non-deductible expenses		28,732	3,615,125
Non-assessable income		(1,578,094)	(6,474,268)
Imputation credits received		(548,235)	(450,482)
Tax losses not recognised	*10*	616,430	332,410
Total income tax expense in statement of comprehensive income		-	-

Imputation credits

	2016	2015
Imputation credits available to shareholders of the parent company:		
Through investment companies	516,651	140,176
	516,651	140,176

Notes to the consolidated financial statements

7. Investments – equity securities

Non-current investments

The Group has six investments in unlisted equity securities (2015: 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.

2016

Entity name	Activities	Acquisition date	Voting interest	Cost
Bayley Corporation Limited	Real Estate Services	Jun 2010	7.4%	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	6.0%	3,336,366
George H Investments Limited	Property investor	Jul 2011	9.6%	1,641,785
PF Olsen Group Limited	Forestry management	Sept 2011	9.5%	2,573,526
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	14.3%	3,437,897
Energyworks Holdings Limited	Engineering services	Jan 2014	16.7%	4,637,533
				19,201,773

2015

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

Notes to the consolidated financial statements

7. Investments – equity securities *(continued)*

(a) Fair value hierarchy

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

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

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

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

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

Investments	2016	2015
Opening balance	21,973,359	35,462,648
Total gains:		
In profit or loss	5,218,279	(36,444)
Investments at cost during the year	-	85,906
Capital returns	(3,215,258)	(13,538,751)
Closing balance	23,976,380	21,973,359

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

Investments	2016	2015
Total gains included in profit or loss for the year	5,547,274	18,819,116
Total gains for the year included in profit or loss for assets held at the end of the reporting period	5,218,279	4,579,057

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 $843,790 (2015: $617,021). A movement in the downward adjustment factor of 5% changes the value of the investments by $1,911,619 (2015: $1,896,567). A movement in the maintainable earnings of 5% changes the value of the investments by $1,424,353 (2015: $1,027,058).

(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 2016 was $23,976,380 (2015: $31,579,226).

(d) Gain on realisation of investments

The realisation of the investments in Scales Corporation Limited resulted in a net gain on sale of $328,995 for the year ended 31 December 2016. This has been recognised in profit or loss.

8. Receivables and prepayments

	2016	2015
GST receivable	938	1,321
Other receivables	6	7
Prepayments	6,966	6,966
	7,910	8,294

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

9. Loans to Portfolio Companies

	2016	2015
Hiway Group Limited	714,934	783,402
Energyworks Holdings Limited	542,158	542,158
	1,257,092	1,325,560

Hiway Group Limited

Hiway Group Limited (investment held by Pohutukawa Zeta Limited) repaid $68,468 during the year (2015: $Nil). The current interest rate is 0.0% (2015: 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. The current interest rate is 0.0% (2015:0.0%).

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	2016	2015
Opening balance 1 January		3,285,293	2,955,194
Prior period adjustments		-	(2,311)
Tax losses not recognised	6	616,430	332,410
Closing balance 31 December		3,901,723	3,285,293

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

	2016	2015
Call deposits	2,903,619	4,106,687
Cash and cash equivalents in the statement of cash flows	2,903,619	4,106,687

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate for 2016 on call deposits was 2.55% (2015: 3.20%).

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	2016	2015	2016	2015	2016	2015
On issue at 1 January	990	2,063	82.5	82.5	6,515	7,053
Cancellation of shares	-	(1,073)	-	-	-	-
Redemption of shares	-	-	-	-	(160)	(538)
On issue at 31 December	990	990	82.5	82.5	6,355	6,515

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

At 31 December 2016, the share capital of the Company comprised 82,500,000 ordinary shares (2015: 82,500,000), and 6,354,555,300 preference shares (2015: 6,514,821,400). In addition, there are 990,000,000 (2015: 990,000,000) preference shares in the 12 (2015: 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 was no calls (2015: $0.05). 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 (2015: $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 $9,578,881 ($0.116 per share) were declared during the year by companies within the Group (2015: $24,588,075, $0.298 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

	2016	2015
Trade payables and accrued expenses	51,592	52,228
	51,592	52,228

14. Earnout Provision

	2016	2015
Opening provision	8,606,764	-
Change in provision due to change in fair value of investments	1,130,323	8,606,764
Distribution of earnout during the period	(4,112,792)	-
Closing earnout provision	5,624,295	8,606,764

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 2016 the estimated earnout provision is calculated at $5,624,295 (2015: $8,606,764). This calculation is based on unrealised portfolio company fair value valuations of $23,976,380 (2015: $31,579,226) and loans receivable of $1,257,092 (2015: $1,325,560) being fully recovered. During the year ended 31 December 2016 $4,112,792 (2015: $Nil) of earnout has been distributed to the Earnout holder.

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

	Note	2016	2015
Profit for the year		5,289,881	10,632,909
Adjustments for:			
Change in fair value of investments		(5,218,279)	(4,579,057)
Gain on realisation of investment		(328,995)	(14,240,059)
Change in trade and other receivables		384	11,046
Change in trade payables and accruals		(636)	(1,040)
Change in earnout provision	*14*	(2,982,469)	8,606,764
Net cash flow to/(from) operating activities		(3,240,114)	430,563

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 is 2.20% (2015: 3.20%). 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
2016				
Cash and cash equivalents	*11*	2,903,619	-	2,903,619
Total		2,903,619	-	2,903,619
2015				
Cash and cash equivalents	*11*	4,106,687	-	4,106,687
Total		4,106,687	-	4,106,687

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 (2015: $0.62 per share). The remaining $0.18 (2015: $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
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

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

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 $995,088 (2015: $1,108,611).
- Legal expenses of $12,552 were incurred by Direct Capital IV Management Limited (2015: $Nil). These were reimbursed by Pohutukawa Private Equity II Limited.
- Call deposits of $2,903,619 (2015: $4,106,687) are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Earnout of $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

	2016	2015
Directors fees (total remuneration)	85,000	85,000

The balance owing to key management personnel at 31 December 2016 is $21,250 (2015: $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* 2016	2015
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.

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 15 to 34:

i. Present fairly in all material respects the Group's financial position as at 31 December 2016 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying consolidated financial statements which comprise:

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

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

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

Basis for opinion

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

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

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

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

Other Information

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

Our objective is:

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

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

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:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx

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

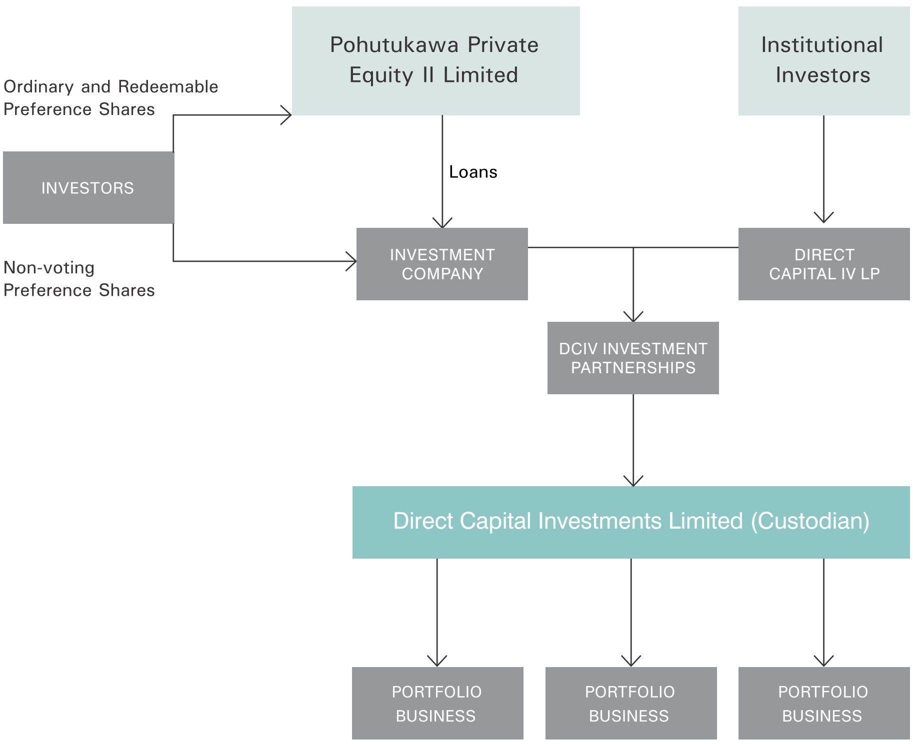
KPMG

KPMG
Tauranga
29 March 2017

Corporate Governance & Structure

Pohutukawa Private Equity 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 ensure that the shareholders' interests are held paramount. The Board has two independent directors.

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

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

The Pohutukawa II Board

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

JOHN MCDONALD
(Chairman and Independent Director)

John is a Company director and trustee with more than 30 year's experience in executive and management positions with the former Fletcher Challenge group of companies through to his retirement in 2001. He has considerable international experience in management, finance, corporate governance best practice and as a director and audit committee member of private and publicly listed companies John is currently a director of Horizon Energy Distribution 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, a company he has been instrumental in building from a small regionally based sharebroking business in Whakatane to its current position as a leading New Zealand investment advisory firm. Craigs Investment Partners has approximately 430 staff across 17 branches throughout New Zealand. Neil has a broad experience in private equity transactions, stock exchange listings, capital raisings and corporate activity for a wide range of companies. In a personal capacity Neil has been an active private equity investor for many years.

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

MIKE CAIRD
(Non-Executive Director)

Mike was appointed as a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited in September 2013. Mike 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's fees from Pohutukawa II. The Manager is entitled to remuneration in respect of management of the funds. Information about the remuneration received by the Manager for this reporting period can be found in the financial statements set out in this report. The Manager does not pay director's fees.

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

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

Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald
Maurice Prendergast
Neil Craig
Mike Caird

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

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