Interim Report

For the half year ended 30 June 2017

Pohutukawa

PRIVATE EQUITY II LIMITED

Contents

Report to Shareholders

October 2017

Dear Shareholder

I am pleased to present Pohutukawa II's 2017 Interim Report. The report includes the financial statements for the interim period to 30 June 2017 with commentary on the performances of our portfolio companies and their prospects.

Pohutukawa II Fund

Pohutukawa II offer raised $82.5 million of committed capital in February 2009. Pohutukawa II co-invests with the Direct Capital IV Fund which together totals $325 million of committed capital. Pohutukawa II has called $51.2 million to the period ended 30 June 2017. On 18 December 2014 the Board decided to cap the maximum amount to be called to 80 cents per share (cps), i.e. a reduction of 20 cps in total committed capital. Currently you have paid 62 cps with a further 18 cps available to be called, if required.

Portfolio Performance Summary

It was business as usual for our portfolio companies during the interim financial period. From the portfolio company distributions received we were able to make a distribution of 1.9 cps gross, paid 23 June 2017.

Pohutukawa II has six remaining investments at the end of the interim period. The majority of the portfolio companies have performed soundly during the interim period.

- Hiway Group - the financial year has commenced well, with the first three months typically the busiest trading months for Hiway. The Geo-Stabilisation joint venture continues to work on projects around Kaikoura; and positive progress continues in Australia;
- PF Olsen is trading ahead of expectations and the prior corresponding year. This was primarily driven by New Zealand operations, which continue to benefit from strong and stable export log market conditions which are supportive of client harvesting programmes;
- The merger of Cavalier Wool Holdings and Wool Services is now complete; the focus on industry consolidation now moves to maximising processing efficiencies across the supply chain, ensuring its market position is retained, and assessing growth opportunities in the wool grease sector;
- Bayley's is trading to expectations. Market conditions were mixed with some slowdown in a number of regions, however overall performance was strong;
- George H Investments has made positive progress with realising several industrial properties.

Energyworks realisation

Subsequent to the end of the financial period we announced that our investment in Energyworks was realised. Shortly after the original investment into Energyworks the oil and gas industry went through a significant downturn, affecting all service companies in the sector, including Energyworks. Significant projects that were planned were deferred, or cancelled. As a result, Energyworks was unable to perform to the original investment case expectations, which had a flow-on impact on the business valuation. Although the sale resulted in a write-off of Pohutukawa's original investment, Energyworks will carry on under an owner-operator model and continue to be a prime contractor in the oil and gas industry and a substantial employer in New Plymouth.

Comments on the individual portfolio company performances are provided from page 6 onwards.

Distributions to Shareholders

Distributions were received from portfolio company dividends and a small capital return. This enabled Pohutukawa II to make a gross distribution of 1.9 cps to shareholders on 23 June 2017. The 1.9 cps distribution represented portfolio company dividends of 1.4 cps and a capital return of 0.5 cps from Hiway Group. Pohutukawa II has now made gross distributions of $70.6 million, equivalent to 85.6 cps. with contributed capital to date of 62 cps. This is a very good result for the Fund at this stage.

Report to Shareholders

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

Table 1 Summary of Investor Returns

Gross Returns to 30 June 2017	
Total capital paid	$0.62
Gross Returns to Investors	
September 2011	0.02
September 2012	0.04
May 2013	0.03
November 2013	0.04
May 2014	0.04
August 2014	0.16
April 2015	0.02
November 2015	0.35
April 2016	0.10
November 2016	0.04
June 2017	0.02
Gross Return	**0.86**
Assessed Net Asset Value 30 June 2017*	0.26
Estimated Total Gross Return	**$1.12**

**After provision of earnout*

Portfolio Company Investments
The original investment cost of the current portfolio was $20.1 million (adjusted for capital returns/loan repayments).

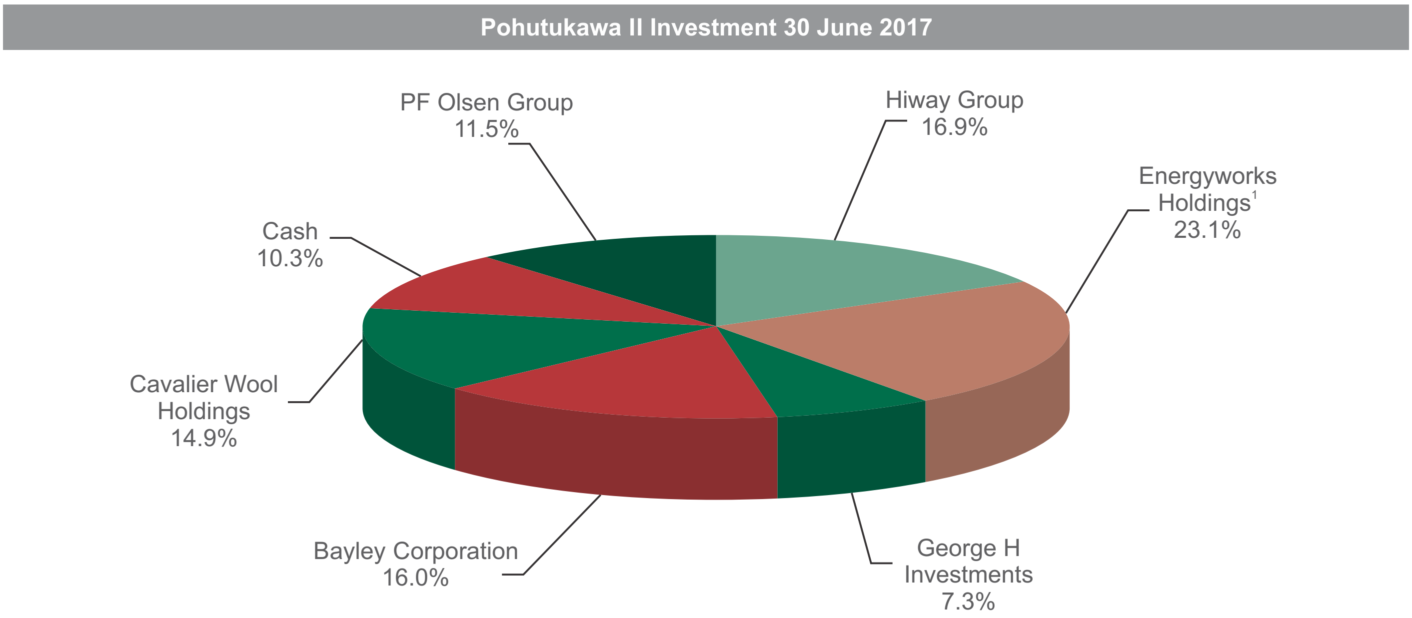
In terms of investment activity, we anticipate only making follow-on investments in the existing portfolio companies, or parallel investments to the existing portfolio companies, if such opportunities arise.

The investments and cash weightings at 30 June 2017 are shown in *Chart 1*.

Portfolio Company Investment Revaluations
The Manager revalues the portfolio company investments each quarter using the International Private Equity & Venture Capital valuation guidelines. Revaluations are completed for all portfolio companies on the last day of the quarter.

The portfolio was valued at $25.2 million at 30 June 2017 compared to the investment cost of $20.1 million. Shareholders have received gross distributions of $70.6 million.

Chart 1 – Pohutukawa II Investment Mix 30 June 2017 (at cost)



[1] Subsequent to balance date the Energyworks investment has been written-off.

Report to Shareholders

Interim Financial Statements 30 June 2017

Our interim financial statements for the half year ended 30 June 2017 and KPMG Audit Review are included in this report.

As at 30 June 2017 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At the interim balance date, shareholder funds were $21.9 million, equivalent to a net asset backing of 26.5 cps (after providing for earn-out). Pohutukawa II is in a strong financial position.

The main assets comprised:

- Investments & loans $25.2 million
- Cash $2.3 million

Income was derived from interest of $36,024 on our short-term deposits; dividend income of $1,001,498 was received from portfolio companies. The investment portfolio was re-valued under the fair value method at 30 June 2017 and there was an $834,323 uplift in fair value of investments, off-set by an impairment of a loan to Energyworks of $542,158.

Administrative expenses were $555,269 (June 2016: $589,596). The profit for the period was $624,630 (June 2016: $3.09 million)

An earn-out provision of $5.6 million has been provided for in the interim accounts (June 2016: $6.4m). The earn-out is calculated at 20% of the net returns of Pohutukawa II provided first that shareholders have received back in distributions their original investment plus a pre-tax compound return of 8% per annum.

Call Programme

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

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 30 June 2017 the last sale price for Pohutukawa II shares was 21 cents while the net asset backing was 26.5 cps after allowing for earn-out.

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

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

Yours sincerely

POHUTUKAWA PRIVATE EQUITY II LIMITED

John McDonald
Chairman

Manager's Report on Portfolio Companies

The Manager is pleased to report on the portfolio performance for the interim period to 30 June 2017.

The interim period has been generally positive for the portfolio which has seen a further distribution to shareholders of 1.9 cps gross in June.

In August 2017 we announced the realisation of Energyworks. The investment had not performed to expectations and was not going to achieve the strategic growth plans envisaged at the time of the initial investment. The decision was made in the best interests of preserving the business as a going concern, and as a large employer in the region, to transfer our shareholding in the business.

Some of the key developments or initiatives in the portfolio companies are covered on page 2 of the Report to Shareholders.

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

Manager's Report on Portfolio Companies

BAYLEY CORPORATION

www.bayleys.co.nz

Date of Original Investment	Industry	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 88 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 concluded its 31 March 2017 financial year strongly, ahead of both expectations and the prior year. Highlights for the year included opening eight new branch offices, a head office move into industry leading premises, incremental M&A initiatives, increased asset management capability, and the successful launch of several new property funds with Augusta. Bayleys strong performance enabled it to continue distributing regular imputed dividends to shareholders.

Performance for Bayleys' first quarter of the 2018 financial year was in line with expectations. Residential market conditions were mixed with a slow-down in a number of regions, however market share performance was robust with gains in a number of regions helping to offset market volatility. The quarterly result was supported by the asset management and valuation business, which performed well. Rural activity remains muted and commercial and industrial activity was strong in Auckland, but soft in the regions.

Outlook

Management expect the residential market will remain weak and may soften in the lead up to the formation of a new Government. Volatile residential volumes and slowing price inflation have been observed, however Bayleys will continue to benefit from its robust market share performance, and supported by its diversified exposure to commercial, industrial and rural sales and exposure to recurrent income from its asset management business.

Manager's Report on Portfolio Companies

CAVALIER WOOL HOLDINGS

www.cavalierwoolscourers.co.nz

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
December 2010	Wool Scouring	Expansion	$3,336	3.3*

* Total shareholding managed by Direct Capital 14.0%

Background

Following the merger of Cavalier Wool Holdings (CWH) and the scouring subsidiaries of Wool Services International (WSI), CWH is the single scouring business processing 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 South Island plant consolidation has been completed and the Kaputone site cleared and realised. Proceeds enabled a material reduction in debt. All South Island scouring is now processed at CWH's Timaru plant. The North Island consolidation continues to be under review.

Wool volumes continue to be impacted by the material reduction in demand for both greasy and scoured wool into the China market. As a result, significant inventories of wool are building up within the supply chain, yet to be sold at auction or processed for export. There is no evidence of the market changing in the immediate future.

Consolidating both groups across the entire 12 months, wool volume was 18% below prior year comparisons. The reduction in wool volume has had a material impact on EBITDA.

Wool grease sales continue to match production and pricing levels remain stable, albeit below expectations.

Wool auction reports continue to report low clearance rates and wide-spread reporting of the wool industry having its worst period for some years. The reduced demand from China is primarily a result in changed fashion for "double-facing" fabrics which utilise coarser wools for the inside of clothing (such as jackets). In addition, lower oil prices also reduce the price of alternatives such as synthetics.

Outlook

The outlook for wool continues to be soft.

Manager's Report on Portfolio Companies

GEORGE H INVESTMENTS

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
July 2011	Agri- Services	Buyout	$1,642	9.4*

* Total shareholding managed by Direct Capital 83%

Background
The demerger of George H Investments (GHI) from Scales Corporation occurred on 30 April 2014.

GHI's principal assets are:
- Three industrial parks (at Whakatu and Groome Place in Hawke's Bay and Silverstream in Mosgiel)
- Land at Canada Crescent, Christchurch

Performance
Whakatu Industrial Park
Final titles have now been issued, with three sites settling in Q317, and the remaining site due to settle in December.
Groome Place, Hawkes Bay
The final 8 hectares of land was sold with settlement in August 2017.
Silverstream Industrial Park
Two lots have been sold and are due to settle in Q417. A further lot has been sold under contract, while marketing is underway for the remaining sites.
Canada Cres, Christchurch
Marketing of this site has commenced.
T&G Global Limited shares
Share price movement for T&G Global has been stable over the reporting period.

Subsequent to the reporting period, the Company negotiated the sale of its remaining shareholding in T&G. The transaction settled on 7 August 2017 and the company will now proceed to distribute these funds alongside proceeds from other property sales.

Outlook
The company will continue to pursue sale opportunities.

Manager's Report on Portfolio Companies

PF OLSEN GROUP

www.pfolsen.co.nz

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

* Total shareholding managed by Direct Capital 40%

Background

PF Olsen is Australasia's largest independent provider of professional forestry services. PF Olsen manages over 300,000 hectares of timberlands and other rural assets across Australasia, and supervises the harvest of over five million tonnes of logs per annum. PF Olsen also offers health and safety compliance, environmental compliance, genetically improved seed and seedling sales, and advisory and other technical services.

Performance

PF Olsen enjoyed strong trading during its half year period to 30 June, driven by growing harvesting management activity in New Zealand. Both domestic and export log markets were strong but more importantly stable, providing an outlet to increasing volumes of wood that are becoming mature for harvest. Adequately resourcing and securing harvest contractors is becoming more challenging and will be a key issue for the industry to address in future years as the volume of wood available for harvest increases.

During the period PF Olsen successfully commenced management over a large institutional estate in Australia, after six months of preparation. Activity in Australia, after six months of preparation. Activity in Australia continues to grow on the back of new client work.

Overall year to date earnings for the group as at 30 June half year are ahead of expectations and the prior year.

PF Olsen was recognised at this year's Safeguard New Zealand Workplace Safety Awards, recognising the company's leading national position for improving safety outcomes for not only its own employees but contractors and other industry stakeholders.

Outlook

The business is expected to trade well throughout the remainder of its financial year, underpinned by new asset management contracts and stable market conditions.

Manager's Report on Portfolio Companies

HIWAY GROUP

www.hiwaygroup.co.nz

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
December 2011	Infrastructure Services	Buyout	$3,785	14.3*

* Total shareholding managed by Direct Capital 60%

Background

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

Performance

The financial performance for the six months to 30 June 2017 was pleasing and materially ahead of the financial performance for the previous comparable period.

The strong financial performance in New Zealand is primarily due to the strong demand from residential land developers to stabilise and improve ground conditions, particularly prior to winter. In May and June of 2017, the company achieved record revenue for its fill drying services, which is specifically targeted at improving wet ground conditions for land development. In Australia, revenue increased over the previous comparable period in all three states (Queensland, New South Wales and Victoria). The growth in revenue is the result of new clients, larger projects and a focus on providing a broader range of services on each project. The majority of revenue generated in Australia is related to roading and infrastructure projects.

Due to the improved market conditions in both New Zealand and Australia, the company is investing in new plant and equipment, which will help to increase capacity and improve productivity.

In terms of strategic initiatives, Hiway Geo-technical formed a new joint venture, Hiway GeoStabalisation, with a leading international stabilisation company. Hiway GeoStabalisation is currently involved in delivering innovative slip repair solutions around Kaikoura. Hiway Group also continues to evaluate a range of bolt-on acquisitions in both New Zealand and Australia across its core stabilisation and geotechnical services.

Outlook

The New Zealand stabilisation business is expected to continue to benefit from the ongoing growth in residential land development, particularly in the upper North Island. Hiway GeoTechnical is tendering for a number of large scale projects which will influence the divisions' results over the next 6 to 12 months. The Australian business is benefiting from a noticeable increase in local, state and federal funding of major road and infrastructure projects. This is expected to continue for a number of years.

Financial Information

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2017

	Note	Unaudited 6 months Jun 2017	Unaudited 6 months Jun 2016	Audited 12 months Dec 2016
Interest income		36,024	71,223	118,158
Dividends received		1,001,498	966,638	1,957,982
Change in fair value of investments	*4*	834,323	2,818,685	5,218,279
Gain on sale of investments	*4*	-	388,589	328,995
Impairment of loans to portfolio companies	*3*	(542,158)	-	-
Movement in earnout provision	*6*	(149,788)	(562,057)	(1,130,323)
Administrative expenses		(555,269)	(589,596)	(1,203,210)
Operating profit/(loss) before tax		624,630	3,093,482	5,289,881
Tax expense		-	-	-
Profit after tax		624,630	3,093,482	5,289,881
Attributable to:				
Equity holders of the parent		272,828	361,366	(688,377)
Equity holders of the investment companies	*1c*	351,802	2,732,116	5,978,258
Profit for the period		624,630	3,093,482	5,289,881
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period attributable to the equity holders of stapled securities		624,630	3,093,482	5,289,881

Financial Information

Consolidated interim statement of changes in equity

For the six months ended 30 June 2017

	Note	Attributable to equity holders of the parent				
		Share capital	Retained earnings	Total	Non-controlling interest	Total equity
Unaudited						
Balance at 1 January 2017		32,187,450	(14,170,522)	18,016,928	4,452,186	22,469,114
Total comprehensive income		-	272,828	272,828	351,802	624,630
Distributions to equity holders	*7*	-	-	-	(851,822)	(851,822)
Redemption of share capital	*7*	(368,135)	-	(368,135)	-	(368,135)
Balance at 30 June 2017		31,819,315	(13,897,694)	17,921,621	3,952,166	21,873,787
Unaudited						
Balance at 1 January 2016		33,790,111	(13,482,145)	20,307,966	8,052,809	28,360,775
Total comprehensive income		-	361,366	361,366	2,732,116	3,093,482
Distributions to equity holders	*7*	-	-	-	(349,245)	(349,245)
Redemption of share capital	*7*	(1,534,193)	-	(1,534,193)	(6,425,798)	(7,959,991)
Balance at 30 June 2016		32,255,918	(13,120,779)	19,135,139	4,009,882	23,145,021
Audited						
Balance at 1 January 2016		33,790,111	(13,482,145)	20,307,966	8,052,809	28,360,775
Total comprehensive income		-	(688,377)	(688,377)	5,978,258	5,289,881
Distributions to equity holders		-	-	-	(9,578,881)	(9,578,881)
Redemption of share capital		(1,602,661)	-	(1,602,661)	-	(1,602,661)
Balance at 31 December 2016		32,187,450	(14,170,522)	18,016,928	4,452,186	22,469,114

Financial Information

Consolidated interim statement of financial position

For the six months ended 30 June 2017

	Note	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Assets				
Loans and receivables	3	346,799	1,325,560	1,257,092
Investments – equity securities	4	24,810,703	24,792,044	23,976,380
Total non-current assets		25,157,502	26,117,604	25,233,472
Trade and other receivables	2	23,726	26,580	7,910
Cash and cash equivalents	5	2,295,612	3,421,816	2,903,619
Total current assets		2,319,338	3,448,396	2,911,529
Total assets		27,476,840	29,566,000	28,145,001
Equity				
Issued capital		31,819,315	32,255,918	32,187,450
Retained losses		(13,897,694)	(13,120,779)	(14,170,522)
Total equity attributable to equity holders of the parent		17,921,621	19,135,139	18,016,928
Equity attributable to equity holders of the investment companies	1 c	3,952,166	4,009,882	4,452,186
Total equity attributable to equity holders of stapled securities		21,873,787	23,145,021	22,469,114
Liabilities				
Trade and other payables		41,925	23,222	51,592
Total current liabilities		41,925	23,222	51,592
Earnout provision	6	5,561,128	6,397,757	5,624,295
Total non-current liabilities		5,561,128	6,397,757	5,624,295
Total liabilities		5,603,053	6,420,979	5,675,887
Total equity and liabilities		27,476,840	29,566,000	28,145,001

Financial Information

Consolidated interim statement of cash flows

For the six months ended 30 June 2017

	Note	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Cash flows from operating activities				
Interest received		36,024	71,223	118,158
Dividends received		1,001,498	966,638	1,957,982
Cash paid to suppliers		(580,752)	(636,888)	(1,203,462)
Distribution of earnout	6	(212,955)	(2,771,064)	(4,112,792)
Net cash from operating activities		243,815	(2,370,091)	(3,240,114)
Cash flows from investing activities				
Realisations from investments		-	9,994,456	13,150,120
Repayment of loans to portfolio companies		368,135	-	68,468
Net cash from investing activities		368,135	9,994,456	13,218,588
Cash flows from financing activities				
Redemption of preference shares	7	(368,135)	(7,959,991)	(1,602,661)
Distributions to equity holders	7	(851,822)	(349,245)	(9,578,881)
Net cash from financing activities		(1,219,957)	(8,309,236)	(11,181,542)
Net movement in cash and cash equivalents		(608,007)	(684,871)	(1,203,068)
Cash and cash equivalents at beginning of period		2,903,619	4,106,687	4,106,687
Cash and cash equivalents at end of period	5	2,295,612	3,421,816	2,903,619

Reconciliation of profit for the period with net cash from operating activities

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Profit for the period	624,630	3,093,482	5,289,881
Adjustments for:			
Changes in fair value of investments – equity securities	(834,323)	(2,818,685)	(5,218,279)
Gain on sale of investments	-	(388,589)	(328,995)
Impairment of loans to portfolio companies	542,158	-	-
Movements in Working Capital:			
Change in trade and other receivables	(15,816)	(18,286)	384
Change in earnout provision	(63,167)	(2,209,007)	(2,982,469)
Change in trade and other payables	(9,667)	(29,006)	(636)
Net cash from operating activities	243,815	(2,370,091)	(3,240,114)

Financial Information

Notes to the consolidated interim financial statements

1. Significant accounting policies

Pohutukawa Private Equity II Limited (the "Company") is a company incorporated and domiciled in New Zealand. The consolidated interim financial statements of the Company for the six months ended 30 June 2017 comprise the Company and 12 Investment Companies (30 June 2016: 12) (together referred to as the "Group").

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

The interim financial statements were approved by the Directors on 18 September 2017.

(a) Statement of compliance

The interim financial statements have been prepared in accordance with New Zealand Equivalents to International Accounting Standard (NZ IAS) NZ IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2016.

(b) Basis of preparation

The Parent Company is a FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. The financial statements are presented in New Zealand dollars, which is the Group's functional currency. They are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

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.

(c) Basis of consolidation

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 (30 June 2016:12) Investment Companies. All of these shares are stapled securities. This stapling arrangement creates a business combination by contract alone without any individual entity obtaining an ownership interest. The Group has designated Pohutukawa Private Equity II Limited as the acquirer and the parent entity for the purpose of preparing consolidated financial statements. The Investment Companies combining under the stapling arrangement are designated as the Investment Companies who invest in Portfolio Companies.

Investments in equity securities, which would normally be classified as investments in associates, are carried at fair value and are not equity accounted (see accounting policy 1d). This is due to the fact that the Group are private equity investors.

Financial Information

Notes to the consolidated interim financial statements

1. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

Special purpose entities

The Group has established a number of special purpose entities for investment purposes. Special purpose entities are consolidated when the Group concludes that it controls the special purpose entity.

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.

(d) Investments in equity securities

The Group's investments in equity securities are classified at fair value through profit or loss financial assets and presented as non-current assets in the statement of financial position. They are stated at fair value, with any resultant change in fair value recognised in profit or loss.

The fair value of investments in equity securities measured at their fair value is their quoted bid price at the reporting date, if available, or valuations. Investments in unlisted equity securities are valued in accordance with the International Private Equity and Venture Capital (IPEV) valuation guidelines.

(e) Loans and borrowings

Loans and borrowings are measured at amortised cost using the effective interest method. They are classified as other liabilities.

2. Trade and other receivables

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
GST receivable	2,821	5,451	938
Prepayments	20,899	20,899	6,966
Other receivables	6	230	6
	23,726	26,580	7,910

3. Loans to portfolio companies

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Hiway Group Limited	346,799	783,402	714,934
Energyworks Holdings Limited*	-	542,158	542,158
	346,799	1,325,560	1,257,092

* The loan to Energyworks Holdings Limited has been fully impaired.

Financial Information

Notes to the consolidated interim financial statements

4. Investments

Non-current investments

The Group has 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 in most instances, valuation techniques are utilised to determine fair value.

Shares in George H Investments Limited have been valued based on the net assets of the company. The valuation techniques utilised for all other investments include the use of market based earnings multiples and an adjustment factor of up to 20% for privately owned investments.

The following details the equity securities held at 30 June 2017 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting Interest	Unaudited Jun 2017 Cost of acquisition	Unaudited Jun 2016 Cost of acquisition	Audited Dec 2016 Cost of acquisition
Bayley Corporation Limited	Real estate services	Jun 2010	7.4%	3,574,666	3,574,666	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	6.0%	3,336,366	3,336,366	3,336,366
George H Investments Limited	Investment assets	Jul 2011	9.6%	1,641,785	3,818,105	1,641,785
PF Olsen Group Limited	Forestry management	Sep 2011	9.5%	2,573,526	2,573,526	2,573,526
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	14.3%	3,437,897	3,437,897	3,437,897
Energyworks Holdings Limited	Energy sector service provider	Jan 2014	16.7%	4,637,533	4,637,533	4,637,533
				19,201,773	21,378,093	19,201,773

Financial Information

Notes to the consolidated interim financial statements

4. Investments (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).

30 June 2017	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	24,810,703	24,810,703

30 June 2016	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	24,792,044	24,792,044

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

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

Investments	Jun 2017	Dec 2016
Opening balance	23,976,380	21,973,359
Total gains/(losses):		
Change in fair value	834,323	5,218,279
Divestments	-	(3,215,258)
Closing balance	24,810,703	23,976,380

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

Investments	Jun 2017	Dec 2016
Total gains/(losses) included in profit or loss for the period	834,323	5,547,274
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	834,323	5,218,279

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Refer Note 4(c) for sensitivity analysis with regards to the earnings multiple or adjustment factor.

Notes to the consolidated interim financial statements

4. Investments (continued)

(b) Significant unobservable inputs used in measuring fair value
Significant unobservable inputs are developed as follows:

EBITDA multiples:
Represent amounts that market participants would use when pricing the investments. EBITDA multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the company by its EBITDA. Other factors that management considers are items such as the lack of marketability and other differences between the comparable peer group and specific company.

Discount for lack of marketability:
Represents the discount applied to the comparable market multiples to reflect the illiquidity of the portfolio companies relative to the comparable peer group. Management determines the discount for lack of marketability based on its judgment after considering market liquidity conditions and company-specific factors such as the developmental stage of the portfolio company, if any.

(c) Sensitivity Analysis for Unlisted Securities
A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by $749,976. A movement in the adjustment factor of 5% changes the value of the investments by $1,698,725. A movement in the maintainable earnings of 5% changes the value of the investments by $1,262,303.

5. Cash and cash equivalents

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Call deposits	2,295,612	3,421,816	2,903,619
Cash and cash equivalents	2,295,612	3,421,816	2,903,619

The majority of call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a 100% subsidiary of Craigs Investment Partners Limited (refer to note 8). The interest rate at 30 June 2017 is 2.20% (30 June 2016: 2.60%).

When applicable, short-term deposits are held with ANZ Bank New Zealand Limited for periods of up to 90 days. There are no deposits held at 30 June 2017 (30 June 2016: $Nil).

Financial Information

Notes to the consolidated interim financial statements

6. Earnout Provision

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Opening provision	5,624,295	8,606,764	8,606,764
Change in provision due to change in Net Assets	149,788	562,057	1,130,323
Distribution of earnout during the period	(212,955)	(2,771,064)	(4,112,792)
Closing Earnout Provision	5,561,128	6,397,757	5,624,295

In accordance with clause 11 of the Prospectus the earnout holder is entitled to an earnout distribution 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 30 June 2017 the estimated earnout provision is calculated at $5,561,128, however this calculation is based on unrealised portfolio company fair value valuations of $24,810,703 and loans receivable of $346,799 being fully recovered. Movements in the provision are recognised in profit or loss.

7. Share Capital

Distributions of $1,219,957 ($0.015 per share) were declared during the period by companies with the Group (30 June 2016: $8,309,236, $0.101 per share). Distributions included redemption of share capital of $368,135 (30 June 2016: $1,534,193). 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.

8. Related parties

Identity of related parties

The Company has a related party relationship with its Investment Companies, due to the ownership structure. Loans are made between the Company and the Investment Companies which eliminate on consolidation.

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 Investment Partners LP are partners 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 and Craigs Investment Partners Limited.

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

Financial Information

Notes to the consolidated interim financial statements

8. Related parties (continued)

Transactions with related parties

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

- Management fees charged by Pohutukawa II Management Limited for the reporting period totalled $461,842 (30 June 2016: $490,131). At the end of the reporting period no management fees or interest were owing to Pohutukawa II Management Limited (30 June 2016: $Nil).
- Craigs Investment Partners Limited paid certain expenses and collects certain receipts of Pohutukawa Private Equity II Limited. As at 30 June 2017, $3,322 remained owing to Craigs Investment Partners Limited (30 June 2016: $230 owing from Craigs Investment Partners Limited).
- Call deposits have been invested in ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited. At 30 June 2017 the balance held was $2,295,612 (30 June 2016: $3,421,009).
- Direct Capital IV Management Limited paid certain expenses on behalf of Pohutukawa Private Equity II Limited. As at 30 June 2017, no expenses were owing to Direct Capital IV Management Limited (30 June 2016: $Nil).
- Pohutukawa II Investment Holdings LP received an earnout distribution of $212,955 during the period (30 June 2016: $2,771,064).

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.

Transactions with key management personnel

	Unaudited Jun 2017	Unaudited Jun 2016	Audited Dec 2016
Directors fees (total remuneration)	42,500	42,500	85,000

The balance owing to directors at 30 June 2017 is $21,250 (30 June 2016: $21,250).

9. Subsequent events

On 18 August, the sale of Energyworks Limited was completed. This transaction will not result in a capital distribution to Pohutukawa II shareholders.

KPMG

Independent Review Report

To the shareholders of Pohutukawa Private Equity II Limited

Report on the interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 11 to 21 do not:

i. Present fairly in all material respects the Group's financial position as at 30 June 2017 and its financial performance and cash flows for the 6 month period ended on that date; and
ii. Comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

The consolidated statement of financial position as at 30 June 2017;

The consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and

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

Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Pohutukawa Private Equity II Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Use of this Independent Review Report

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

Auditor's Review Report

Responsibilities of the Directors for the interim consolidated financial statements

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

The preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting;

Implementing necessary internal control to enable the preparation of interim consolidated financial statements that are 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 review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG

Tauranga
18 September 2017

Directory

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John McDonald
Maurice Prendergast
Neil Craig
Mike Caird

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