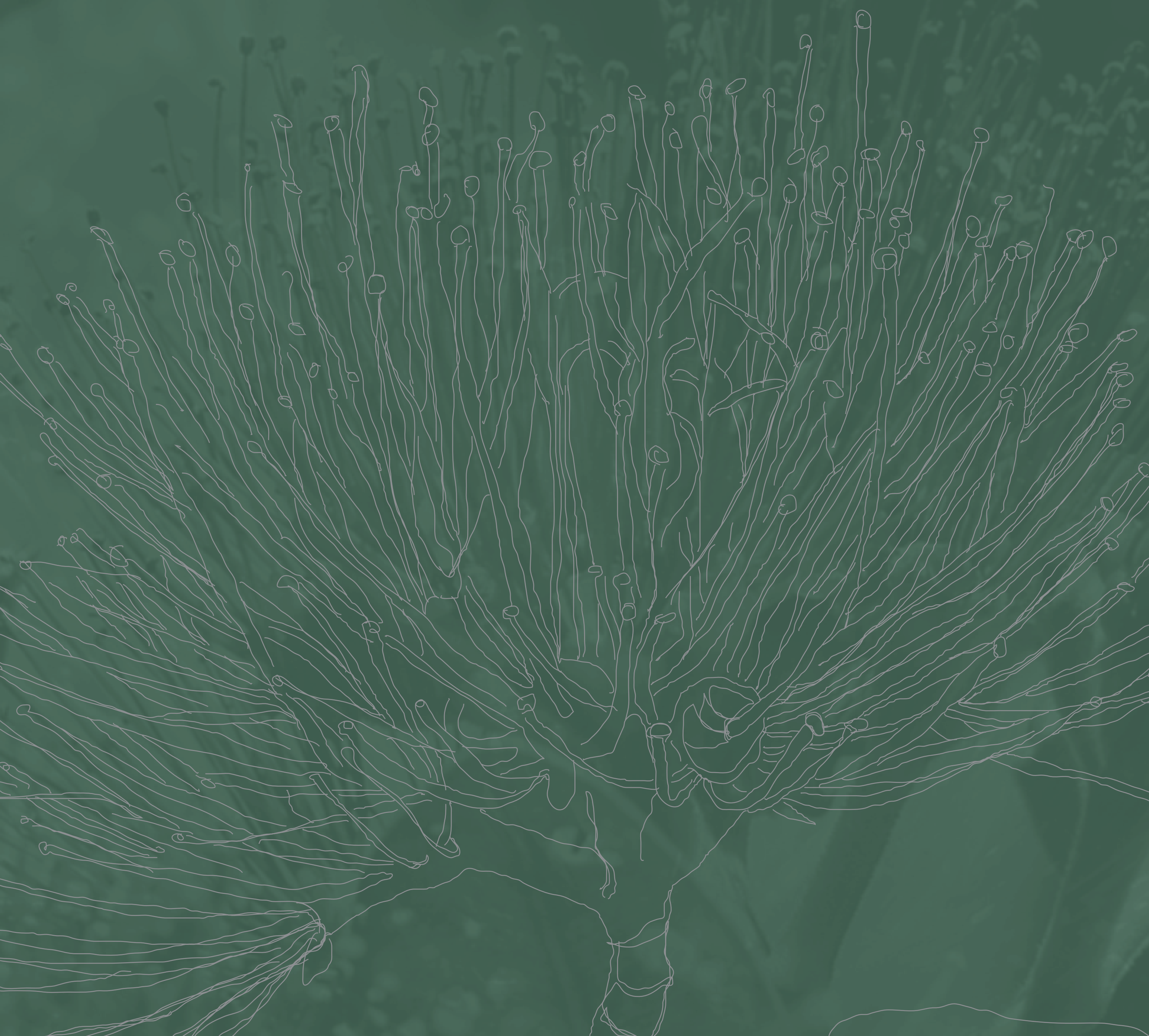


Interim Report

For the half year ended 30 June 2018

Pohutukawa
PRIVATE EQUITY II LIMITED

Contents

Report to Shareholders

October 2018

Dear Shareholder

I am pleased to present Pohutukawa II's 2018 Interim Report. The report includes the financial statements for the interim period to 30 June 2018 with commentary on the performance of our portfolio companies, developments within the portfolio and their prospects.

Pohutukawa II Fund

The 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 total $325 million. Pohutukawa II has called $51.1 million to the period ended 30 June 2018. On 18 December 2014 the Board decided to cap the maximum amount of capital to be called at 80 cents per share (cps), i.e. a reduction of 20 cps in total committed capital. Shareholders have contributed capital of 62 cps and although a further 18 cps could be called, this is considered unlikely.

Portfolio Performance Summary

It was business as usual for our portfolio companies during the interim financial period.

Pohutukawa II had five remaining investments at the end of the interim period. The portfolio companies have performed to expectations during this period.

- *Bayley Corporation* - traded well for the 6 months ended 30 June 2018, supported by excellent performances from its Commercial and Industrial and Rural and Lifestyle divisions;
- *Cavalier Wool Holdings* - the June 2018 quarter represents completion of the full 2018 financial year which reflected a continuation of strong volume throughput as the export market (particularly China) continues to recover. All plants have been operating with sufficient volume to be at 100% capacity, which continued into a solid start to the 2019 financial year;
- *George H Investments* continues to make positive progress, realising several industrial properties. The proceeds will be returned to shareholders over the next twelve months;
- *PF Olsen* - despite the loss of a large forest contract, harvest volumes were down only slightly year on year. Strong log market conditions and rising wood-flow compensated.
- *Hiway Group* - overall, performance in the stabilisation division was in line with expectations. The division also continues to receive work under its sub-contract on the Puhoi – Warkworth motorway.

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

Portfolio transaction post quarter end

We are very pleased to announce the recent realisation of our shareholdings in two portfolio companies:

- Hiway Group, which settled on 20 September 2018; and
- Cavalier Wool Holdings, which settled 28 September 2018.

The proceeds from both settlements, together with accumulated dividends from Hiway, Cavalier and other portfolio companies will be distributed to shareholders in October.

Distributions to Shareholders

Pohutukawa II last made a distribution of 2.1 cps gross in December 2017, bringing total gross distributions to 87.7 cps or $72.3 million.

Proposed distribution

Directors have approved a gross distribution to Pohutukawa II shareholders of 13.0 cps to be distributed in October.

This will result in total gross distributions of $1.01 per share from 62 cps contributed to Pohutukawa II.

Report to Shareholders

A summary of gross returns made to Shareholders for the period ended 30 June 2018 is shown in *Table 1: This excludes the proposed October distribution.*

Table 1 Summary of Investor Returns

Summary of Investor Returns	
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
December 2017	0.02
Gross Return to June 2018	**0.88**
Assessed Net Asset Value 30 June 2018*	0.27
Estimated Total Gross Return	**$1.15**

**Includes provision of earnout*

The adjusted NAV post the October distribution is estimated at 15 cps.

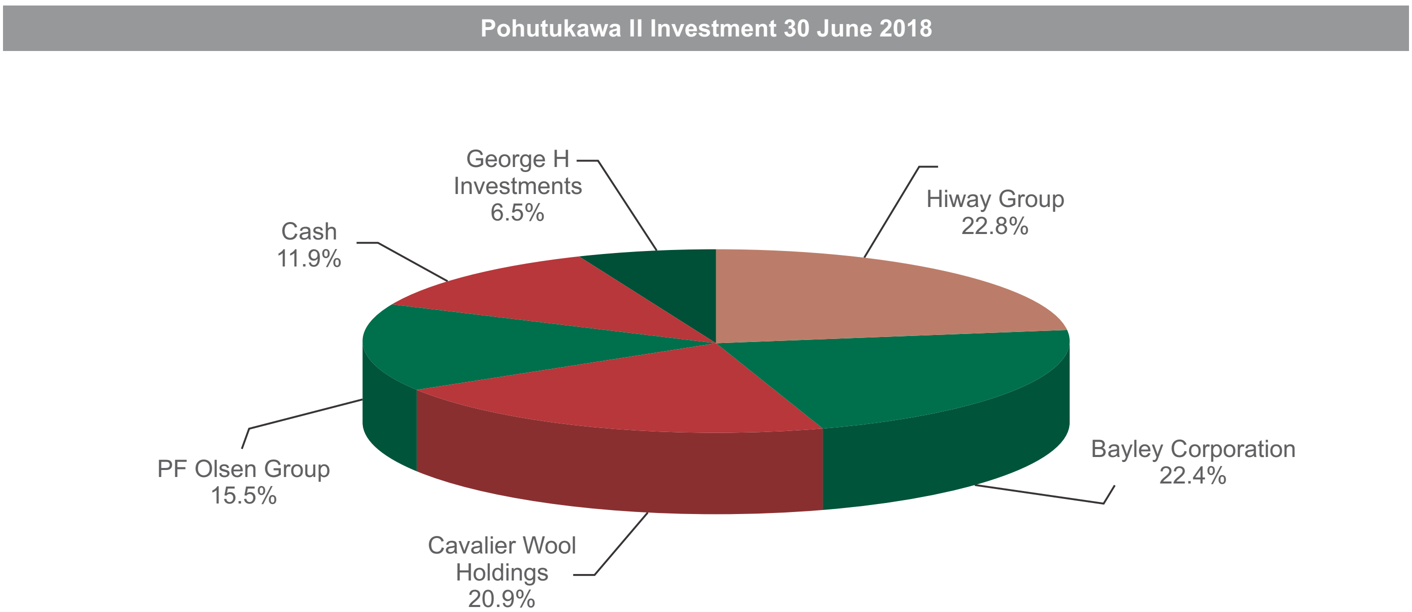
Portfolio Company Investments

The original investment cost of the current portfolio at 30 June 2018 is $14 million (adjusted for capital returns/loan repayments).

The Investment Manager does not anticipate making any further investments.

The investments and cash weightings at 30 June 2018 are shown in *Chart 1*.

Chart 1 – Pohutukawa II Investment Mix 30 June 2018 (at cost)



Report to Shareholders

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 investment portfolio, excluding cash was valued at $25.9 million at 30 June 2018 compared to the investment cost of $14 million.

Interim Financial Statements 30 June 2018

Our interim financial statements for the period ended 30 June 2018 and KPMG Audit Review are included in this report.

For the period ended 30 June 2018 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At the interim balance date, shareholder funds were $22.2 million, equivalent to a net asset backing of 26.9 cps (after allowing for earn-out). Pohutukawa II is in a strong financial position.

The main assets comprised:

- Investments & loans $25.9 million
- Cash $1.9 million

Income was derived from interest of $19,290 on our short-term deposits; dividend income of $490,869 was received from portfolio companies. The investment portfolio was re-valued under the fair value method at 30 June 2018 and there was a negative movement in the fair value of investments of $72,834.

Administrative expenses were $489,402 (June 2017: $555,269). There was a net loss of $38,326 for the period (June 2017 profit: $624,630)

An earn-out provision of $5.5 million has been provided for in the interim accounts (June 2017: $5.5 million). The earn-out is calculated at 20% of the net returns of Pohutukawa II provided that shareholders have received back in distributions their original investment plus a pre-tax compound return of 8% per annum.

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 2018 the last sale price for Pohutukawa II shares was 25 cents while the net asset backing was 26.9 cps after allowing for earn-out. The estimated NAV post the October distribution is 15 cps.

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 2018.

The interim period has been generally positive for the majority of the companies in the portfolio.

The Manager is very pleased to also announce, subsequent to the end of the interim period, the recent realisation of our investments in Hiway Group and Cavalier Wool Holdings which is a very positive outcome for Pohutukawa II shareholders. The directors have declared a gross distribution of 13 cps which will be paid to shareholders in October.

The performance and prospects of each portfolio company is provided in the company summaries that follow. There is no commentary for Hiway Group and Cavalier Wool Holdings given their realisations.

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 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 recorded a strong trading result for the 6 months ended 30 June 2018, supported by excellent performances from the Commercial and Industrial division and the Rural and Lifestyle division. Sales volumes in the Residential division increased slightly against a backdrop of a modest recovery in industry-wide sales volumes, to within 5% of long run averages.

Asset Management and Valuation revenue exceeded expectations and achieved good growth relative to the same period last year.

During the last 6 months, Bayleys secured a significant property management contract for an institutional asset manager's NZ property assets following a competitive process.

Bayleys also acquired Knight Frank's New Zealand business during the reporting period. Knight Frank is strong in the valuation and asset management divisions, particularly in Christchurch.

Outlook

Bayleys recently launched their new brand campaign "Altogether Better" with television promotion and new marketing collateral and is enthusiastic about several new key personnel appointments to the executive team.

Bayleys also looks forward to working with Knight Frank Global as its new Global Alliance Partner.

GEORGE H INVESTMENTS

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
July 2011	Agri- Services	Buyout	$1,043	9.3*

* Total shareholding managed by Direct Capital 81.6%

Background

GHI's principal assets are currently:

- Land and buildings at Silverstream in Mosgiel

The assets of GHI will be managed to maximise value, with the proceeds expected to be returned to shareholders over time.

Performance

Silverstream Industrial Park

One lot settled during the quarter, with the remaining five sites continuing to be marketed.

Outlook

The company will continue to pursue sale opportunities. Future distributions will be by way of a liquidation distribution.

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	$2,475	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 350,000 hectares of timberlands and other rural assets across Australasia, supervises the harvest of over 6.5 million tonnes of logs per annum, and plants over 15,000 hectares 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's 2018 year had a slow start with wet conditions negatively impacting client harvesting programmes, however by June the negative variance had largely been recovered.

Key features for the reporting period influencing the result include:

- Higher levels of planting and seed stock sales in New Zealand; and
- An improved performance from Australia, achieving growth year on year.

Within New Zealand a maturing forestry base combined with new and replanting activity on the back of rising carbon prices has helped drive forestry management and harvesting activity. PF Olsen won a competitive tender to plan, seed, and plant a ~2,500 hectare estate during the reporting period. It represents one of the larger planting programmes PF Olsen has undertaken in recent history.

Australian operations were stable, slightly above prior year.

Outlook

Subsequent to the 30 June reporting period, performance has been particularly strong on the back of rising harvest volumes and a strong planting season resulting in PF Olsen trading ahead of expectation and the prior year.

PF Olsen operates with a wide range of client relationships, ranging from a large number of one off engagements from small forestry owners to a handful of long term contracts subject to expiry and retendering. During the period PF Olsen was unsuccessful in the retender for a large contract which expires in October 2018. While unfortunate, the business is confident this work can be replaced in the short to medium term through a combination of smaller newly secured contracts, an outstanding environment for planting activities, and rising woodflows from existing clients.

Financial Information

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2018

	Note	Unaudited 6 months Jun 2018	Unaudited 6 months Jun 2017	Audited 12 months Dec 2017
Interest income		19,290	36,024	61,952
Dividends received		490,869	1,001,498	1,862,099
Change in fair value of investments	*4*	(72,834)	834,323	2,769,488
Gain on sale of investments	*4*	-	-	82,769
Impairment of loans to portfolio companies		-	(542,158)	(542,158)
Movement in earnout provision	*6*	13,751	(149,788)	(621,983)
Administrative expenses		(489,402)	(555,269)	(1,096,182)
Operating profit/(loss) before tax		(38,326)	624,630	2,515,985
Tax expense		-	-	-
Profit/(loss) after tax		(38,326)	624,630	2,515,985
Attributable to:				
Equity holders of the parent		(73,278)	272,828	(280,793)
Equity holders of the investment companies	*1c*	34,952	351,802	2,796,778
Profit/(loss) for the period		(38,326)	624,630	2,515,985
Other comprehensive income for the period		-		--
Total comprehensive income/(loss) for the period attributable to the equity holders of stapled securities		(38,326)	624,630	2,515,985

Financial Information

Consolidated interim statement of changes in equity

For the six months ended 30 June 2018

	Note	Attributable to equity holders of the parent			Attributable to	
		Share capital	Retained earnings	Total	equity holders of the investment companies	Total equity
Unaudited						
Balance at 1 January 2018		31,610,701	(14,451,315)	17,159,386	5,120,593	22,279,979
Total comprehensive income		-	(73,278)	(73,278)	34,952	(38,326)
Distributions to equity holders	7	-	-	-	-	-
Redemption of share capital	7	-	-	-	-	-
Balance at 30 June 2018		31,610,701	(14,524,593)	17,086,108	5,155,545	22,241,653
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
Audited						
Balance at 1 January 2017		32,187,450	(14,170,522)	18,016,928	4,452,186	22,469,114
Total comprehensive income		-	(280,793)	(280,793)	2,796,778	2,515,985
Distributions to equity holders		-	-	-	(2,128,371)	(2,128,371)
Redemption of share capital		(576,749)	-	(576,749)	-	(576,749)
Balance at 31 December 2017		31,610,701	(14,451,315)	17,159,386	5,120,593	22,279,979

Financial Information

Consolidated interim statement of financial position

As at 30 June 2018

	Note	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Assets				
Loans and receivables	3	200,182	346,799	346,799
Investments – equity securities	4	25,705,102	24,810,703	25,777,936
Total non-current assets		25,905,284	25,157,502	26,124,735
Trade and other receivables	2	23,130	23,726	9,022
Cash and cash equivalents	5	1,899,316	2,295,612	1,778,084
Total current assets		1,922,446	2,319,338	1,787,106
Total assets		27,827,730	27,476,840	27,911,841
Equity				
Issued capital		31,610,701	31,819,315	31,610,701
Retained losses		(14,524,593)	(13,897,694)	(14,451,315)
Total equity attributable to equity holders of the parent		17,086,108	17,921,621	17,159,386
Equity attributable to equity holders of the investment companies	1 c	5,155,545	3,952,166	5,120,593
Total equity attributable to equity holders of stapled securities		22,241,653	21,873,787	22,279,979
Liabilities				
Trade and other payables		29,831	41,925	61,865
Total current liabilities		29,831	41,925	61,865
Earnout provision	6	5,556,246	5,561,128	5,569,997
Total non-current liabilities		5,556,246	5,561,128	5,569,997
Total liabilities		5,586,077	5,603,053	5,631,862
Total equity and liabilities		27,827,730	27,476,840	27,911,841

For and on behalf of the Board

Director

10 September 2018

Date

Director

10 September 2018

Date

Financial Information

Consolidated interim statement of cash flows

For the six months ended 30 June 2018

	Note	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Cash flows from operating activities				
Interest received		19,290	36,024	61,952
Dividends received		490,869	1,001,498	1,862,099
Cash paid to suppliers		(535,543)	(580,752)	(1,087,022)
Distribution of earnout	*6*	-	(212,955)	(676,281)
Net cash from operating activities		(25,384)	243,815	160,748
Cash flows from investing activities				
Acquisition of investments				(110,724)
Realisations from investments		-	-	1,161,426
Repayment of loans to portfolio companies		146,616	368,135	368,135
Net cash from investing activities		146,616	368,135	1,418,837
Cash flows from financing activities				
Redemption of preference shares	*7*	-	(368,135)	(576,749)
Distributions to equity holders	*7*	-	(851,822)	(2,128,371)
Net cash from financing activities		-	(1,219,957)	(2,705,120)
Net movement in cash and cash equivalents		121,232	(608,007)	(1,125,535)
Cash and cash equivalents at beginning of period		1,778,084	2,903,619	2,903,619
Cash and cash equivalents at end of period	*5*	1,899,316	2,295,612	1,778,084

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

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Profit/(loss) for the period	(38,326)	624,630	2,515,985
Adjustments for:			
Changes in fair value of investments – equity securities	72,834	(834,323)	(2,769,488)
Gain on sale of investments	-	-	(82,769)
Impairment of loans to portfolio companies	-	542,158	542,158
Movements in Working Capital:			
Change in trade and other receivables	(14,107)	(15,816)	(1,112)
Change in earnout provision	(13,751)	(63,167)	(54,298)
Change in trade and other payables	(32,034)	(9,667)	10,272
Net cash from operating activities	(25,384)	243,815	160,748

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 2018 comprise the Company and 12 Investment Companies (30 June 2017: 12) (together referred to as the "Group") and outline significant changes to information reported in the financial statements for the year ended 31 December 2017.

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 2017.

The interim financial statements were approved by the Directors on 10 September 2018.

(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 2017.

(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 2017:12) 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

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.

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.

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

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

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

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

Financial Information

Notes to the consolidated interim financial statements

2. Trade and other receivables

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
GST receivable	2,231	2,821	2,050
Prepayments	20,899	20,899	6,966
Other receivables	-	6	6
	23,130	23,726	9,022

3. Loans to portfolio companies

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Hiway Group Limited	200,182	346,799	346,799
	200,182	346,799	346,799

Hiway Group Limited (investment held by Pohutukawa Zeta Limited) repaid $146,617 during the year (30 June 2017: $368,135). The current interest rate is 0.0% (30 June 2017: 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.

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 2018 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting Interest	Unaudited Jun 2018 Cost of Acquisition	Unaudited Jun 2017 Cost of Acquisition	Audited Dec 2017 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	3.3%	3,336,366	3,336,366	3,336,366
George H Investments Limited	Investment assets	Jul 2011	9.3%	1,042,533	1,641,785	1,042,533
PF Olsen Group Limited	Forestry management	Sep 2011	9.5%	2,475,636	2,573,526	2,475,636
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	-
				13,867,098	19,201,773	13,867,098

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 2018	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	25,705,102	25,705,102

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

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

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 2018	Dec 2017
Opening balance	25,777,936	23,976,380
Total gains/(losses):		
Net change in fair value	(72,834)	2,852,258
Investments at cost during the year	-	110,724
Capital returns	-	(1,161,426)
Closing balance	25,705,102	25,777,936

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

Investments	Jun 2018	Dec 2017
Total gains/(losses) included in profit or loss for the period	(72,834)	2,852,258
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	(72,834)	2,769,488

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 $861,759 A movement in the discount factor of 5% changes the value of the investments by $1,570,937. A movement in the maintainable earnings of 5% changes the value of the investments by $1,321,094

5. Cash and cash equivalents

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Call deposits	1,899,316	2,295,612	1,778,084
Cash and cash equivalents	1,899,316	2,295,612	1,778,084

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 2018 is 2.25% (30 June 2017: 2.20%).

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 2018 (30 June 2017: $Nil).

Financial Information

Notes to the consolidated interim financial statements

6. Earnout Provision

	Unaudited Jun 2018	Unaudited Jun 2017	Audited Dec 2017
Opening provision	5,569,997	5,624,295	5,624,295
Change in provision due to change in Net Assets	(13,751)	149,788	621,983
Distribution of earnout during the period	-	(212,955)	(676,281)
Closing Earnout Provision	5,556,246	5,561,128	5,569,997

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 2018 the estimated earnout provision is calculated at $5,556,246, which is based on unrealised portfolio company fair value valuations of $25,705,102 and loans receivable of $200,182 being fully recovered. Movements in the provision are recognised in profit or loss.

7. Share Capital

No distributions were declared during the period by companies within the Group (30 June 2017: $1,219,957, $0.015 per share including redemption of share capital of $368,135). 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 $403,352 (30 June 2017: $461,842). At the end of the reporting period no management fees or interest were owing to Pohutukawa II Management Limited (30 June 2017: $Nil).
- Craigs Investment Partners Limited paid certain expenses and collects certain receipts of Pohutukawa Private Equity II Limited. As at 30 June 2018, no amount remained owing to Craigs Investment Partners Limited (30 June 2017: $3,322 owing to 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 2018 the balance held was $1,898,705 (30 June 2017: $2,295,612).
- Direct Capital IV Management Limited paid certain expenses on behalf of Pohutukawa Private Equity II Limited. As at 30 June 2018, no expenses were owing to Direct Capital IV Management Limited (30 June 2017: $Nil).
- Pohutukawa II Investment Holdings LP received no earnout distribution during the period 30 June 2018 (30 June 2017: $212,955).

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 2018	Unaudited Jun 2017	Audited Dec 2017
Directors fees (total remuneration)	42,500	42,500	85,000

The balance owing to directors at 30 June 2018 is $21,250 (30 June 2017: $21,250).

9. Subsequent events

The Manager has confirmed the realisation of the investment in Hiway Group Limited is unconditional and settlement is expected to occur by 21 September 2018. A distribution to Pohutukawa II shareholders will follow settlement.

Auditor's Review Report

KPMG

Independent Review Report

To the shareholders of Pohutukawa

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 9 to 19 do not:

i. Present, in all material respects the Group's financial position as at 30 June 2018 and its financial performance and cash flows for the 6 month period ended on that date in compliance with NZ IAS 34 Interim Financial Reporting.We have completed a review of the accompanying interim consolidated financial statements which comprise:

- The consolidated interim statement of financial position as at 30 June 2018;
- The consolidated interim 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, 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 is 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 consolidated 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 consolidated 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
10 September 2018

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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