

Interim Report
For the half year ended 30 June 2012

Pohutukawa
PRIVATE EQUITY II LIMITED





Contents

Report to Shareholders	2
Manager's Report on Portfolio Companies	5
Consolidated interim statement of comprehensive income	11
Consolidated interim statement of changes in equity	11
Consolidated interim statement of financial position	12
Consolidated interim statement of cash flows	13
Notes to consolidated interim financial statements	14
Auditor's Review Report	19
Directory	20



Report to Shareholders



14 September 2012

Dear Shareholder

I am pleased to present Pohutukawa II's interim report for 2012, which provides commentary on our portfolio company investments and our financial performance for the half year to 30 June 2012.

We also announce a further distribution of 2.61 cents per Pohutukawa II share approved for payment to shareholders during September.

The Market and Portfolio Performance

The 2012 year has been as challenging as 2011 for our portfolio companies.

Surveys of consumer and business confidence continue to indicate weak consumer spending and credit growth and below average business investment intentions. In the past the rural sector has provided some offset to this, helped by high commodity prices. However, falling commodity prices has seen a pull-back in rural investment and spending. The delay in the rebuilding of Christchurch has also played its part but this is only a timing issue, at some point this will have a positive impact on economic activity.

Whilst New Zealand economic activity has been positive, albeit somewhat subdued, New Zealand has fared considerably better than many other economies. The global economy continues to be plagued by the European debt crisis, and a lack of political will to address many of the economic issues in both the US and Europe. Adding to investors' concerns is the slowing economic growth in China with its implications for our largest trading partner, Australia. With the New Zealand economy in a healthier position than many others, the New Zealand dollar has remained at stubbornly high levels.

We continue to ask ourselves - are market conditions likely to show a gradual improvement over time, or is the current situation now the "normal" business environment?

The heartening news is that we are starting to see some early signs of improvement. Listed companies have generally reported better profit performances for the June period and

this has resulted in the local stock market outperforming most other stock markets of late, thus indicating a returning market confidence. Interest rates remain at a historical low providing better capacity to service debt levels.

The Pohutukawa II portfolio companies continue to perform soundly. All portfolio companies continue to pay down debt and have the support of their bankers. All companies are well placed to continue to perform, and where appropriate are actively pursuing growth opportunities.

Economic conditions remain challenging and we remain cautious in our approach to new investment opportunities.

Portfolio Investments

Transaction Services Limited

In January 2010 Pohutukawa II and Direct Capital IV LP invested \$24 million in Transaction Services, a third-party payment processing company. The current combined shareholding is 47.7%. Pohutukawa II has an 11.4% share of Transaction Services.

Bayleys Corporation Limited

In June 2010 Pohutukawa II and Direct Capital IV LP invested in well-known real estate firm Bayleys. The combined current shareholding is 31%. Pohutukawa II has a 7.4% share of Bayleys.

Cavalier Wool Holdings Limited

In December 2010 Pohutukawa II and Direct Capital IV LP acquired a 25% shareholding in Cavalier Wool Holdings, a wool scouring business. Pohutukawa II has a 6.0% share of Cavalier.

Scales Corporation Limited

In July 2011 Pohutukawa II and Direct Capital IV LP and coinvestors made its fourth portfolio company investment in Scales Corporation, acquiring a combined 79.7% shareholding. Following a rights issue in May this year the shareholding increased to 83.4%. Pohutukawa II has a 9.5% share in Scales.

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

Report to Shareholders

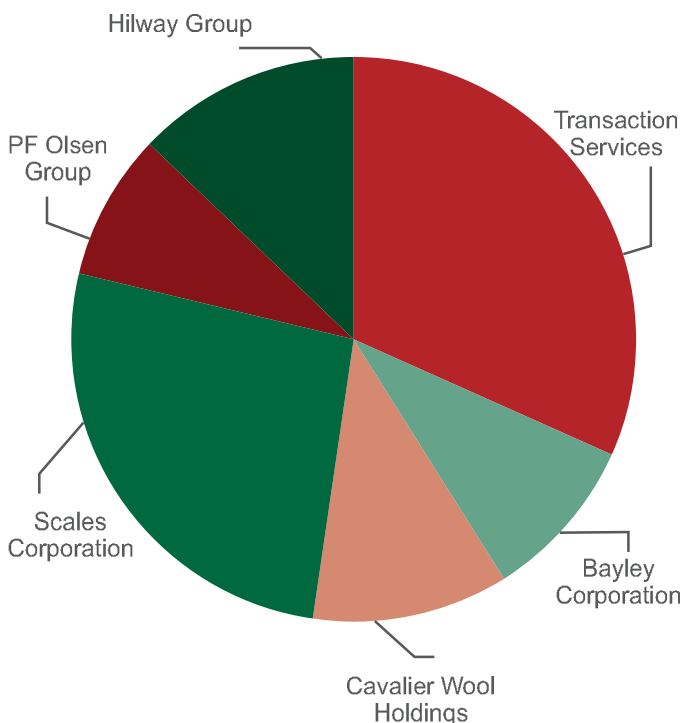
PF Olsen Group Limited

In September 2011 Pohutukawa II and Direct Capital IV LP made an investment for a combined 30% shareholding in the PF Olsen, a provider of professional forestry services. A further investment was made in April 2012 taking the shareholding to 40%. Pohutukawa II has a 9.5% share in PF Olsen.

Hiway Group Limited

Hiway Group is a leading New Zealand based roading and infrastructure services contractor. In December 2011 Pohutukawa II and Direct Capital IV LP invested for a combined 60% shareholding. A follow-on investment occurred in July 2012. Pohutukawa II has a 14.3% share in Highway.

Portfolio Investments as at 30 June 2012



Portfolio Revaluation

The investment manager revalues the portfolio at the end of each quarter under the Australian Private Equity & Venture Capital Association (AVCAL) guidelines. The market value of the portfolio at 30 June 2012 was \$29.1 million, compared with an initial cost of \$26.3 million. Every portfolio company

showed a positive valuation increase when compared to valuations at 31 December 2011, which is a very pleasing result.

Paid-up Capital and Calls

Shareholders paid 10 cents per share (cps) on application in March 2009.

There have been subsequent calls of:

- 10 cps paid in September 2010;
- 17 cps paid in September 2011; and
- 10 cps paid in April 2012.

Your Pohutukawa II shares are now paid to 47 cps, for a total contributed capital amount of \$38.8 million.

Investment Funding

Our cash position as at 30 June 2012 was \$6.3 million which means we should be able to make a further investment, or possibly two investments as our cash position allows, without the need to make a further call on shareholders. Subsequent investments will necessitate a further call.

Distribution

As mentioned the Board has approved a net cash distribution of 2.61 cents per Pohutukawa II share for payment on 28 September 2012. The gross distribution equates to 3.65 cps. Imputation credits are attached and where applicable resident withholding tax/non-resident withholding tax will be deducted at the appropriate rate. Prior to this distribution, Pohutukawa has made one distribution of 2.05 cents per Pohutukawa II share, which was distributed on 9 September 2011.

Market Conditions and Opportunities

Direct Capital continues its investment focus on businesses that demonstrate core business fundamentals of proven profitability, strong focused management, a strategic growth plan and the capacity to achieve this growth with further investment capital.

Report to Shareholders

Direct Capital's investments are made following intensive due diligence and research. They look to take a business to the next level by contributing capital to help scale up the operation, and through providing strategic and governance support.

Although new investment prospects may appear slower than usual, the Direct Capital investment team are currently busy reviewing several new opportunities and follow-on portfolio company investment opportunities. It is likely our next investment will be a follow-on investment into one of our existing portfolio companies.

Interim Financial Statements 30 June 2012

Our interim financial statements for the six-month period ending 30 June 2012 are included in this interim report.

Pohutukawa had 82.5 million \$1 stapled securities on issue, paid to 47 cps, as at 30 June 2012.

At balance date shareholder' funds were \$35.4 million, or 43 cps.

Assets comprised:

- | | |
|---------------|-----------------|
| ● Investments | \$29.06 million |
| ● Cash | \$6.29 million |
| ● Receivables | \$0.08 million |

At balance date 30 June 2012 the investment portfolio included:

- Transaction Services Limited;
- Bayley Corporation Limited;
- Cavalier Wool Holdings Limited;
- Scales Corporation Limited;
- PF Olsen Group Limited; and
- Hiway Group Limited.

Valuation methods applied included earnings multiples for the first four investments and the latest share price for the most recent investments.

Pohutukawa II received income from dividends and interest of \$604,000 and it recognised a \$2,291,000 uplift in fair value of investments. Administrative expenses, comprising mainly management fees, were \$1,020,000. The profit for the period was \$1,897,000 compared to a profit of \$579,000 in the previous corresponding period.

We will keep you up to date with any investment activity either by writing to you directly or via website updates. Please continue to view the Pohutukawa website, www.pohutukawafund.co.nz from time to time for news updates. We also provide a news alert email service.

Thank you for your ongoing support of Pohutukawa II and if you have any queries regarding your investment please call your Investment Adviser or Peter Lalor at Pohutukawa II Management on 07 577 4727.

Yours sincerely,
Pohutukawa Private Equity II Limited



John McDonald
Chairman

Manager's Report on Portfolio Companies

Portfolio Performance Summary

The Manager is pleased with the ongoing development of the investment portfolio. The portfolio composition is well balanced across business and industry sectors. We are pleased with the overall trading performances in what have been very challenging market conditions. The portfolio companies are encouraged to monitor the market for growth opportunities. We have the capital available to help the companies achieve their growth strategies. Any improvement in market conditions will certainly enhance the portfolio companies' performances.

The Manager is currently assessing a short-list of prospective investments which meet our investment criteria. Agri-food based businesses continue to be of interest to us.

Individual portfolio company performances and prospects are highlighted in the portfolio company summaries that follow.

TRANSACTION SERVICES

www.debitsuccess.co.nz



Shareholder Statement as at 30 June 2012	Shareholding %	No. Shares
Pohutukawa II	11.4	3,837,848
Direct Capital IV	32.6	10,913,584
Coinvestment	3.7	1,255,734
Management/other	52.3	17,516,458
	<u>100.0</u>	<u>33,523,624</u>
Total Direct Capital shareholding 47.7%		

Background

Transaction Services Limited (TSL) was established in 1994 and is Australasia's largest third party recurring payment processing company, offering the full breadth of payment services to businesses of all sizes.

TSL annually processes more than 20 million transactions on behalf of over 2,500 clients from their 698,000 customers in New Zealand and Australia. TSL operates under the brands Debitsuccess and FFA Pysmart, and manages the payment processing function for clients in a wide range of industries.

Performance

TSL's result for its financial year to March 2012 was in line expectations and growth was again achieved despite the noticeably slower consumer market

in Australia. Active customer numbers were up appreciably during the year and the new business pipeline remains promising in both countries.

The Company paid a fully imputed dividend to Pohutukawa II of \$1.0m in September 2012. This dividend combined with previous dividends and the share buyback in 2011 mean that Pohutukawa has now realised 48% of its initial investment in TSL, reflecting the positive trading performance of the business during that time.

Outlook

TSL management remain confident of their ability to continue to grow the business over the coming year and there are a number of initiatives underway with existing and new customers across a range of industry segments.

Manager's Report on Portfolio Companies

BAYLEY CORPORATION

www.bayleys.co.nz



Shareholder Statement as at 30 June 2012	Shareholding %	No. Shares
Pohutukawa II	7.4	441,317
Direct Capital IV	21.2	1,262,582
Coinvestment	2.5	147,953
Management/other	69.0	4,115,475
	<u>100.0</u>	<u>5,967,327</u>
Total Direct Capital shareholding 31.0%		

Background

Bayley Corporation (Bayleys) is a property services company operating nationally from 54 corporate owned and franchise branches. Bayleys has a dominant position in marketing commercial, industrial, and rural properties, and a leading position in high-value residential and lifestyle property sales. In addition to real estate agency, Bayleys offers facilities and asset management, valuation, leasing, research and advisory services.

Performance

Bayleys concluded its FY12 financial year (March year-end) during the period both above expectations and above the prior year. Above expected brokerage commissions were driven in part by strong growth in commercial and industrial, rural and later in the year residential commissions. The business continues to expand its property services and valuations teams across Auckland and Wellington, which is also contributing positively to the group result.

Bayleys expanded its presence in Auckland by a further 3 offices with the acquisition of its North Shore residential franchise, which is performing well post its integration in April.

Outlook

Residential activity is increasing across New Zealand and particularly in Auckland, where Bayleys has added 7 offices in the last 12 months. Rural brokerage commissions also appear strong going into the new financial period, offset by a softening in commercial and industrial listings.

Manager's Report on Portfolio Companies

CAVALIER WOOL HOLDINGS



Shareholder Statement as at 30 June 2012	Shareholding %	No. Shares
Pohutukawa II	6.0	348,752
Direct Capital IV	17.0	997,755
Coinvestment	2.0	116,919
Management/other	75.0	4,390,278
	<u>100.0</u>	<u>5,853,704</u>
Total Direct Capital shareholding 25%		

Background

Cavalier Wool Holdings (CWH) is the country's largest wool scouring operator with sites in Napier and Timaru, CWH is a commission-only scour processing 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 for use in cosmetic and pharmaceutical end products.

Performance

CWH completed a strong six month performance with increased market share, strong volumes and higher wool grease prices leading to increased earnings. For the full year to June, CWH achieved revenue and earnings ahead of both budget and prior year comparisons.

M&A Activity

CWH is continuing to seek to acquire the scouring assets of NZAX-listed Wool Services International.

Outlook

The outlook for New Zealand wool production remains stable. Although CWH is a commission-only scour and does not trade in wool itself, underlying volume throughput is impacted by its end customers' markets, particularly in the flooring/carpet sector and conditions remain challenging both locally and globally. Demand for wool grease continues to grow as its use in cosmetics and pharmaceutical products broadens.

Manager's Report on Portfolio Companies

SCALES CORPORATION

www.scalescorporation.co.nz



Shareholder Statement as at 30 June 2012	Shareholding %	No. Shares
Pohutukawa II	9.5	3,818,105
Direct Capital IV	27.1	10,923,383
Direct Capital Coinvestment	46.8	18,828,188
Management/External	16.6	6,703,054
TOTAL	<u>100.0</u>	<u>40,272,730</u>
Total Direct Capital Investment Limited shareholding 83.4%		

Background

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

Performance

Scales actual earnings for the six months year to date are in line with expectations. The group incurs a significant deficit through the first half of the financial year because Mr Apple incurs the majority of its operating costs, in picking and post-harvest activities, during this period, while the bulk of the apple sales are recognised in the third and fourth quarters.

There are a number of initiatives concerning the property portfolio, including the potential sale of industrial properties in Hawkes Bay and development of new premises in Silverstream. The proceeds of any property sales will be used to reduce current debt.

Rights Issue

The \$25.2m rights issue was completed in May. Direct Capital's \$20m loan (used to acquire the Turners & Growers shareholding) was repaid and used to subscribe for ordinary shares. In addition Direct Capital together with Pohutukawa II and co-investors took up an additional \$3.3m of the \$5.1m available to minority shareholders (but not subscribed for by them). Following the rights issue Direct Capital's shareholding in Scales increased from 79.2% to 83.4%.

Centenary

Scales celebrated its centenary on 21 July 2012. The function was well attended by all stakeholders including descendants of George Scales, the founder.

Outlook

The Company remains confident of achieving budget for the full financial year. Both Mr Apple and the cold storage operations continue to enjoy positive market conditions.

The company has made significant progress to reduce overall Scales group debt which provides the opportunity to support the capital needs of the operating businesses.

Manager's Report on Portfolio Companies

PF OLSEN GROUP

www.pfolsen.co.nz



Shareholder Statement as at 30 June 2012	Shareholding %	No. Shares
Pohutukawa II	9.5	171,796
Direct Capital IV	27.3	491,499
Coinvestment	3.2	57,595
Management/other	60.0	1,079,110
	<u>100.0</u>	<u>1,800,000</u>
Total Direct Capital shareholding 40%		

Background

PF Olsen is Australasia's largest independent provider of professional forestry services, including forestry management, harvesting management, genetically improved seed and containerised seedling sales, forestry enterprise software, environmental compliance, health and safety compliance, mapping and GIS services, and advisory and other technical services. PF Olsen subcontracts out physical operations to over 125 contractors, indirectly employing 1,500 nationally. The Company's forestry clients include international institutional forestry investors, local forestry investors, government agencies, lwi groups, a number of district councils, and vertically integrated corporate owners.

Performance

PF Olsen's performance in the six months to June 2012 was again pleasing, with trading ahead of expectation despite a noticeable softening of domestic harvesting activity which was offset by above budget performances from Australia and advisory services.

PF Olsen commenced management of a major new forestry estate in Australia in December last year, and the implementation of this long term contract has tracked well against plan. The Company has increased the number of employees in Australia from 4 at the time of Pohutukawa's initial investment to 23 at the time of writing, and recently assumed management of a second mid-to-large estate, adding to the scale and scope of operations in Australia.

On the back of a strong finish to the 2011 calendar year, PF Olsen paid a fully imputed dividend in February equivalent to 11% of Pohutukawa's

original investment cost. A further dividend was declared and paid in September, equivalent to a further 4.5% return on the total investment cost (including the follow-on investment completed in April 2012).

Follow-on Investment

Direct Capital together with Pohutukawa II acquired a further 10% shareholding in PF Olsen during the period, bringing its total shareholding to 40%. The investment settled on 30 April 2012.

Outlook

High log inventories in China and lower in-market prices will dampen the full year contribution from harvesting management fees. This was anticipated at the time of the initial investment. Execution of the Australian game-plan is proceeding well, adding a diversified long-term revenue source to the group.

Manager's Report on Portfolio Companies

HIWAY GROUP

www.hiwaygroup.co.nz



Shareholder Statement as at 30 June 2012	Shareholding %	No. Shares
Pohutukawa II	14.3	2,530,863
Direct Capital IV	40.9	7,240,658
Coinvestment	4.8	848,479
Management	40.0	7,080,000
	<u>100.0</u>	<u>17,700,000</u>
Total Direct Capital shareholding 60%		

Background

Hiway Group is a leading New Zealand based roading and infrastructure services contractor, with operations in both New Zealand and Australia.

Hiway Group operates through two main operating companies, Hiway Stabilizers and Hiway GeoTechnical deploying a number of specialist technologies including deep soil mixing, soil nailing, aggregate modification, sub-grade stabilisation, fill drying and foamed bitumen recycling. The company also offers a number of environmental contracting services including soil recycling and site remediation.

Performance

Trading for the six months was above expectation with a strong contribution from Hiway GeoTechnical. The result achieved by GeoTechnical is very pleasing with a strong forward order book and a positive uplift over that achieved in the same period last year.

The Australian results for the period were also positive. The company has achieved pleasing growth over the period, supplemented with new equipment and staffing. The company has allocated significant management resources to manage these growth opportunities and has also appointed a new Australian resident director as an independent chairman for the Australian business.

Outlook

Continued growth is expected in Australia principally in flood damaged Queensland. The opportunities for the GeoTechnical business are also improving in quake damaged Canterbury with significant interest for specialist site remediation and stabilising work for both industrial and residential foundations.

Financial Information

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2012

	Note	Unaudited 6 months Jun 2012	Unaudited 6 months Jun 2011	Audited 12 months Dec 2011
Interest income		141,147	3,009	37,649
Dividends received		463,498	258,631	752,059
Change in fair value of investments	1d	2,291,338	1,352,141	914,376
Other operating income		48,745	-	-
Administrative expenses		(1,020,268)	(1,009,482)	(2,235,408)
Operating profit/(loss)		1,924,460	604,299	(531,324)
Finance expenses - interest		(27,001)	(25,150)	(85,168)
Profit/(Loss) before tax		1,897,459	579,149	(616,492)
Tax expense		-	-	-
Profit/(loss) after tax		1,897,459	579,149	(616,492)
Attributable to:				
Owners of the parent		(144,698)	(993,467)	(988,844)
Non-controlling interests	1c	2,042,157	1,572,616	372,352
Profit/(Loss) for the period		1,897,459	579,149	(616,492)
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period attributable to the equity holders of stapled securities		1,897,459	579,149	(616,492)

Consolidated interim statement of changes in equity

For the six months ended 30 June 2012

	Attributable to equity holders of the parent			Non-controlling interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 1 January 2012	29,164,736	(4,539,810)	24,624,926	621,385	25,246,311
Total comprehensive income	-	(144,698)	(144,698)	2,042,157	1,897,459
Issue of share capital	8,250,000	-	8,250,000	-	8,250,000
Balance at 30 June 2012	37,414,736	(4,684,508)	32,730,228	2,663,542	35,393,770
Balance at 1 January 2011	16,491,895	(3,550,966)	12,940,929	586,037	13,526,966
Total comprehensive income	-	(993,467)	(993,467)	1,572,616	579,149
Balance at 30 June 2011	16,491,895	(4,544,433)	11,947,462	2,158,653	14,106,115
Balance at 1 January 2011	16,491,895	(3,550,966)	12,940,929	586,037	13,526,966
Total comprehensive income	-	(988,844)	(988,844)	372,352	(616,492)
Issue of share capital	14,025,000	-	14,025,000	-	14,025,000
Dividends paid	-	-	-	(337,004)	(337,004)
Redemption of preference shares	(1,352,159)	-	(1,352,159)	-	(1,352,159)
Balance at 31 December 2011	29,164,736	(4,539,810)	24,624,926	621,385	25,246,311

Financial Information

Consolidated interim statement of financial position

As at 30 June 2012

	<i>Note</i>	Unaudited Jun 2012	Unaudited Jun 2011	Audited Dec 2011
Assets				
Investments – equity securities	3	29,062,136	14,885,564	23,511,631
Total non-current assets		29,062,136	14,885,564	23,511,631
Receivables and prepayments	2	78,342	399,233	19,814
Cash and cash equivalents	4	6,287,634	315,126	1,765,619
Taxation receivable		-	8,841	-
Total current assets		6,365,976	723,200	1,785,433
Total assets		35,428,112	15,608,764	25,297,064
Equity				
Issued capital		37,414,736	16,491,895	29,164,736
Retained losses		(4,684,508)	(4,544,433)	(4,539,810)
Total equity attributable to equity holders of the parent		32,730,228	11,947,462	24,624,926
Non-controlling interest	1c	2,663,542	2,158,653	621,385
Total equity attributable to equity holders of stapled securities		35,393,770	14,106,115	25,246,311
Liabilities				
Trade and other payables		34,342	15,090	50,753
Payable to Manager	8	-	1,487,559	-
Total current liabilities		34,342	1,502,649	50,753
Total non-current liabilities		-	-	-
Total liabilities		34,342	1,502,649	50,753
Total equity and liabilities		35,428,112	15,608,764	25,297,064

For and on behalf of the Board



Director

7 September 2012

Date



Director

7 September 2012

Date

Financial Information

Consolidated interim statement of cash flows

For the six months ended 30 June 2012

	<i>Note</i>	Unaudited Jun 2012	Unaudited Jun 2011	Audited Dec 2011
Cash flows from operating activities				
Cash receipts from fees		48,745	-	752,059
Interest received		85,613	2,324	36,947
Dividends received		463,498	258,631	-
Other operating income received		-	-	8,841
Interest paid		(16,070)	-	(85,168)
Cash paid to suppliers		(1,039,673)	(71,122)	(1,810,686)
Net cash from operating activities	6	(457,887)	189,833	(1,098,007)
Cash flows from investing activities				
Acquisition of investments		(3,270,098)	-	(10,415,991)
Realisation of investments		-	-	1,352,159
Net cash from investing activities		(3,270,098)	-	(9,063,832)
Cash flows from financing activities				
Proceeds from share capital		8,250,000	-	14,025,000
Redemption of preference shares		-	-	(1,352,159)
Loans repaid / advanced by related parties		-	-	(533,672)
Loans advanced by external parties		2,274,735	-	9,007,033
Loans repaid to external parties		(2,274,735)	-	(9,007,033)
Distributions to equity holders		-	-	(337,004)
Net cash from financing activities		8,250,000	-	11,802,165
Net movement in cash and cash equivalents		4,522,015	189,833	1,640,326
Cash and cash equivalents at beginning of period		1,765,619	125,293	125,293
Cash and cash equivalents at end of period	4	6,287,634	315,126	1,765,619

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 2012 comprise the Company and 25 Investment Companies (30 June 2011: 25) (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 2011.

The interim financial statements were approved by the Directors on 7 September 2012.

(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 2011.

(b) Basis of preparation

Pohutukawa Private Equity II Limited and the Investment Companies are registered under the Companies Act 1993 and are issuers and reporting entities for the purposes of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the Financial Reporting Act 1993. The Group is profit-oriented.

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 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.

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.

Financial Information

Notes to the consolidated interim financial statements

1. Significant accounting policies (*continued*)

Joint ventures

Joint ventures are entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. In the case of the Group this relates to the interests in the Partnerships. Joint ventures are accounted for using the proportionate method.

A Partnership entity is in place between the Investment Company and the Portfolio Company for each investment. The other partner in the Partnership is Direct Capital IV Limited Partnership, the co-investor in the Portfolio Company.

Non-controlling Interest

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

(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 valuation principles set by the Australian Private Equity and Venture Capital Association Limited (AVCAL).

(e) Receivables

Receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For disclosure purposes they are classified as loans and receivables.

(f) Loans and borrowings

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

2. Receivables and prepayments

	Unaudited Jun 2011	Unaudited Jun 2010	Audited Dec 2010
GST receivable	1,901	370,435	12,802
Other receivables	55,542	7,899	46
Prepayments	20,899	20,899	6,966
	<u>78,342</u>	<u>399,233</u>	<u>19,814</u>

As at 30 June 2011 a GST receivable was reported which was subject to an Inland Revenue Department review into the background structure of Pohutukawa Private Equity II Limited. This review has now been completed with the large majority of GST refunds received. In December 2011 Pohutukawa Private Equity II Limited and IRD agreed on a small adjustment in relation to GST going forward, which the Directors accepted as appropriate.

Financial Information

Notes to the consolidated interim financial statements

3. 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, valuation techniques are utilised to determine fair value.

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

The difference between the cost and the carrying value in the statement of financial position is shown as a fair value movement through profit or loss.

The following details the unlisted equity securities held at 30 June 2012 at their cost price:

Entity name	Activities	Initial Acquisition date	Jun 2012 Cost of acquisition	Dec 2011 Cost of acquisition
Transaction Services Limited ¹	3rd party payment processing	Jan 2010	4,348,348	4,348,348
Bayley Corporation Limited	Real estate services	Jun 2010	3,574,666	3,574,666
Cavalier Wool Holdings Limited	Agri-services	Dec 2010	3,336,366	3,336,366
Scales Corporation Limited	Agri-services	Jul 2011	7,636,210	4,997,799
PF Olsen Group Limited	Forestry managements	Sep 2011	2,392,789	1,772,033
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	3,646,159	3,646,159
			<u>24,934,538</u>	<u>21,675,371</u>

¹Transaction Services Limited had an original cost of \$5,700,507 and a subsequent share buyback and cancellation of \$1,352,158 on 14 July 2011.

4. Cash and cash equivalents

	Unaudited Jun 2012	Unaudited Jun 2011	Audited Dec 2011
Call deposits	287,634	315,126	1,115,619
Short-term deposits	6,000,000	-	650,000
	<u>6,287,634</u>	<u>315,126</u>	<u>1,765,619</u>

Call deposits are held with the ANZ National Bank Limited via CIP Cash Management Nominees Limited a 100% subsidiary of Craigs Investment Partners Limited. The interest rate at 30 June 2012 is 3.00% (2011: 3.00%).

5. Loans and borrowings

Pohutukawa Private Equity II Limited has an uncommitted bank facility it can call on of \$8,000,000 for a maximum period of 90 days. During the period to 30 June 2012 the Group drew down \$1,754,735 (2011: \$9,007,033). This facility was completely repaid with the proceeds of the April 2012 shareholder call.

Financial Information

Notes to the consolidated interim financial statements

6. Reconciliation of profit/(loss) for the period with net cash from operating activities

	Unaudited Jun 2012	Unaudited Jun 2011	Audited Dec 2011
Profit/(loss) for the period	1,897,459	579,149	(616,492)
<i>Adjustments for:</i>			
Changes in fair value of investments – equity securities	(2,291,338)	(1,352,141)	(914,376)
Reclassification of interest expense	10,931	-	-
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	(58,528)	16,432	395,814
Change in income tax receivable	-	-	8,841
Change in trade and other payables	(16,411)	946,393	28,206
Net cash from operating activities	(457,887)	189,833	(1,098,007)

7. 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 employees are responsible for preparing valuations of investments.

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 \$931,605 (30 June 2011: \$928,125). At the end of the reporting period management fees and interest were owing to Pohutukawa II Management Limited totalling \$Nil (30 June 2011: \$1,487,559).
- Craigs Investment Partners Limited paid certain expenses of Pohutukawa Private Equity II Limited. As at 30 June 2012, \$7,388 remained owing to Craigs Investment Partners Limited (30 June 2011: \$nil).
- Call deposits have been invested in the National Bank of New Zealand via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited. At 30 June 2012 the balance held was \$286,046 (30 June 2011: \$303,799).

Financial Information

Notes to the consolidated interim financial statements

7. Related parties (continued)

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

Transactions with key management personnel

	Unaudited Jun 2012	Unaudited Jun 2011
Directors fees (total remuneration)	21,250	21,250

The balance owing to key management personnel at 30 June 2011 is \$21,250 (30 June 2011: \$10,625).

8. Subsequent events

On 2 July 2012 a further investment of \$214,480 was made into Hiway Group Limited. The investment was funded using existing cash reserves.

Auditor's Review Report



To the shareholders of Pohutukawa Private Equity II Limited

We have reviewed the attached consolidated interim financial statements in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The consolidated interim financial statements (the financial statements) provide information about the past financial performance of the group and its financial position as at 30 June 2012.

Directors' responsibilities

The Directors of Pohutukawa Private Equity II Limited are responsible for the preparation of financial statements which give a true and fair view of the financial position of the group as at 30 June 2012 and the results of the group's operations and cash flows for the six month period ended on that date.

Reviewers' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

A review is limited primarily to enquiries of the group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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. There are however certain restrictions on dealings which partners and employees of our firm have with the group. These matters have not impaired our independence as auditors of the group. The firm has no other relationship with, or interest in, the group.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the attached financial statements do not give a true and fair view of the financial position of as at 30 June 2012, the results of their operations and cash flows for the six month period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting.

Our review was completed on 7 September 2012 and our opinion is expressed as at that date.

KPMG

Tauranga

Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald
Neil Craig
Maurice Prendergast
Frank Aldridge

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

OFFICES OF POHUTUKAWA II

Pohutukawa Private Equity II Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3141
Phone: (07) 577 4727
Fax: (07) 928 6443
Email: enquiries@pohutukawafund.co.nz

AUDITORS

KPMG
35 Grey Street
Tauranga 3110
Phone: (07) 578 5179
Fax: (07) 578 2555

MANAGER

Pohutukawa II Management Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3141
Phone: (07) 577 4727
Fax: (07) 928 6443
Email: enquiries@pohutukawafund.co.nz

SHARE REGISTRY

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna
North Shore City 0622
Phone: (09) 488 8777
Fax: (09) 488 8787
Email: enquiry@computershare.co.nz

SOLICITORS

Chapman Tripp Sheffield Young
Level 35, 23-29 Albert Street
PO Box 2206
Auckland 1140
Phone: (09) 357 9000
Fax: (09) 357 9099

