



Interim Report

For the half year ended 30 June 2014

Pohutukawa

PRIVATE EQUITY II LIMITED





Contents

Report to Shareholders	2
Manager's Report on Portfolio Companies	5
Consolidated interim statement of comprehensive income	13
Consolidated interim statement of changes in equity	13
Consolidated interim statement of financial position	14
Consolidated interim statement of cash flows	15
Notes to consolidated interim financial statements	16
Auditor's Review Report	23
Directory	24



Report to Shareholders

17 September 2014

Dear Shareholder

I am pleased to present Pohutukawa II's interim report, including Pohutukawa II's financial performance for the half year to 30 June 2014, the Manager's update on the portfolio performance and its outlook.

Portfolio Performance

The Pohutukawa II portfolio companies have produced a sound performance. Trading results have been very satisfying but the Manager does not expect performance for the remainder of the year to continue at the current high trajectory.

At 30 June 2014, Pohutukawa II has received total investment proceeds of \$12.9 million from a total of \$33.0 million invested. It is worth noting that this does not include the \$12.1 million in gross capital proceeds from the 66% sell-down of the Pohutukawa II investment in Scales Corporation (Scales) which happened after the reporting period.

Transaction Services continued with its UK expansion and has now acquired two compatible businesses there. The acquisitions have been funded by additional equity and debt.

During the period Scales undertook a demerger process which resulted in the investment assets being transferred to George H Investments Limited. As a result of this process, Pohutukawa II has a 9.6% shareholding in George H Investments Limited at 30 June 2014. Following the demerger, the Scales board subsequently made the decision to proceed with an IPO and listing on the NZX. The Scales IPO was confirmed on 4 July 2014 with trading commencing on the NZX on 25 July 2014. This significant event occurred just after the end of the interim period. These shares were sold at the IPO list price of \$1.60 per share. This resulted in \$12.1 million being realised along with a pre-IPO imputed dividend received in July, the proceeds were subsequently distributed to Pohutukawa II shareholders on 11 August 2014.

Current Portfolio

Transaction Services Limited (TSG)

In January 2010 Direct Capital IV LP and Pohutukawa II invested in Transaction Services, a third-party payment

processing company. A follow-on investment occurred in April 2014 to fund the continued expansion in the UK market. The current combined shareholding is 48.6%. Pohutukawa II has an 11.7% shareholding in TSG.

Bayley Corporation Limited (Bayleys)

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

Cavalier Wool Holdings Limited (CWH)

In December 2010 Direct Capital IV LP and Pohutukawa II acquired a 25% shareholding in CWH, a wool scouring business. Pohutukawa II has a 6.0% shareholding in CWH.

Scales Corporation Limited (Scales)

In July 2011 Direct Capital IV LP, Pohutukawa II and co-investors acquired a combined 79.7% shareholding in Scales. Subsequent rights issue increased the total shareholding to 84.2%. At 30 June 2014, Pohutukawa II had a 9.6% share in Scales. Scales is a diversified group involved in horticulture and various primary sectors. Its businesses can be classified into three main divisions: (1) Mr Apple; (2) storage and logistics (coldstores and bulk liquid storage); and (3) Meateor (pet food ingredients). In July 2014 Pohutukawa II sold down 66% of its shareholding into the Scales IPO. Post IPO Pohutukawa II holds a 2.8% shareholding in Scales.

George H Investments Limited (GHI)

On 30 April 2014 Scales went through a demerger process involving its investment assets. These investment assets were transferred to GHI. Direct Capital IV LP, Pohutukawa II and co-investors have a combined 84.2% shareholding. Pohutukawa II has a 9.6% shareholding in GHI.

PF Olsen Group Limited (PF Olsen)

In September 2011 Direct Capital IV LP and Pohutukawa II 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%. A small follow-on investment was made in March 2014. Pohutukawa II has a 9.5% shareholding in PF Olsen.

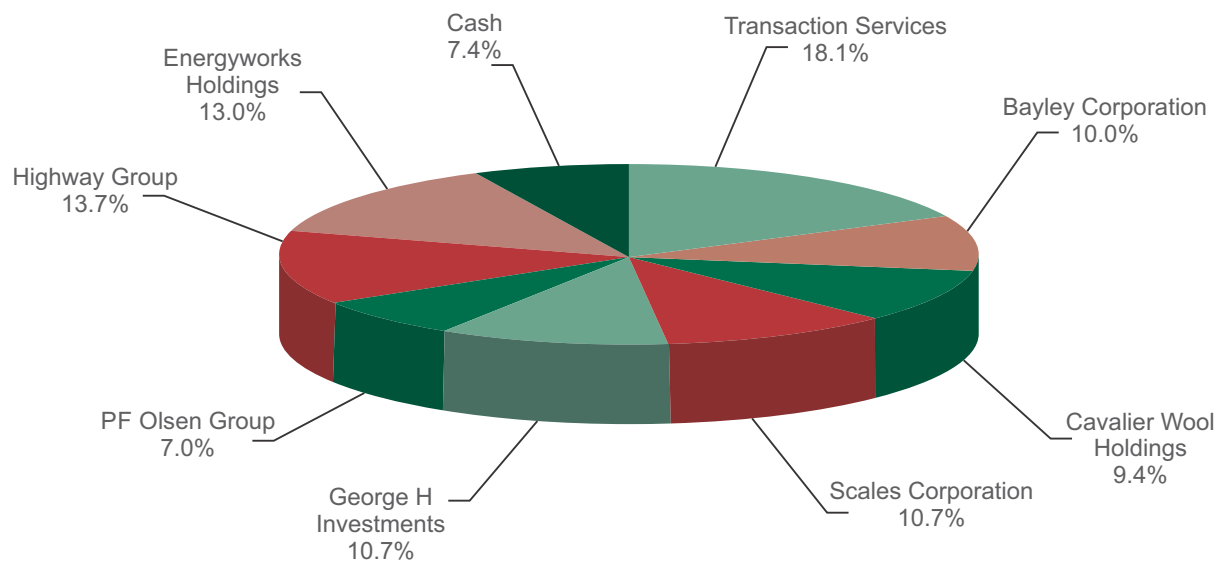
Hiway Group Limited (Hiway)

Hiway is a leading New Zealand based roading and infrastructure services contractor. In December 2011 Direct

Report to Shareholders

Investment Portfolio Composition as at 30 June 2014 (at investment cost)

Pohutukawa II Investments as at 30 June 2014



Capital IV LP and Pohutukawa II acquired a 60% shareholding. There have been small follow-on investments in Hiway. Pohutukawa II has a 14.3% shareholding in Hiway.

Energyworks Holdings Limited (Energyworks)

Energyworks is New Zealand's leading provider of engineering solutions to the onshore gas and petrochemical industry. In January 2014 Direct Capital IV LP and Pohutukawa II invested for a combined 70% shareholding. Pohutukawa II has a 16.7% shareholding in Energyworks.

Shareholder Distributions & Returns

To date you have contributed 57 cps of your \$1.00 per share capital commitment. At 30 June 2014 Pohutukawa II has paid shareholders by way of dividend and capital returns, 16.6 cps gross.

Following the end of the interim period you received a distribution of 15.7 cps gross relating to the Scales share sell-down and a pre IPO Scales Corporation imputed dividend.

In all you have now received back 32.3 cps from your 57 cps investment.

A summary of gross returns made to shareholders to 30 June 2014 is shown in *Table 1*.

Table 1 Summary of Investor Returns

Investors Return to 30 June 2014	
Total capital paid	\$0.57
Gross Returns to Investors	
September 2011	0.02
September 2012	0.04
May 2013	0.03
November 2013	0.04
May 2014	0.04
Total Gross Return	0.16
Assessed Net Asset Value 30 June 2014	0.66
Estimated Gross Return*	0.83
Estimated rate of return since inception to 30 June 2014**	11.8%

*Excludes manager's earnout currently estimated to be \$0.05

**IRR Includes allowance for manager's earnout



Report to Shareholders

Investment Capital

Paid-up Capital and Calls

Your Pohutukawa II shares are currently paid to 57 cps, for a total contributed capital amount of \$47 million.

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;
- 10 cps paid in April 2012;
- 10 cps paid in April 2014

The board has deferred the decision on a final call until towards the end of this year. Any call will be wholly dependent on imminent investments at that time.

Investment Funding

We have sufficient cash to meet current working capital needs. We envisage a call will be required for any new investment.

As outlined at the recent Annual Shareholders Meeting the board will provide a further update to Shareholders post year end concerning future calls and investment activity.

Portfolio Revaluation

The investment manager revalues the portfolio at the end of each quarter under the International Private Equity and Venture Capital (IPEV) valuation guidelines. The market value of the portfolio at 30 June 2014 was \$51.6 million, compared with an initial cost of \$33.0 million.

Interim Financial Statements 30 June 2014

Our interim financial statements for the six-month period ending 30 June 2014 are included in this interim report.

Pohutukawa had 82.5 million \$1 stapled securities on issue, paid to 57 cps, as at 30 June 2014.

At balance date shareholder' funds were \$54.57 million, or 66 cps.

Assets comprised:

• Investments	\$51.95 million
• Cash	\$2.62 million
• Receivables	\$0.08 million

Each portfolio company is revalued quarterly using an earnings multiple approach, with the exception being Scales and GHI, which use external valuations (including the IPO immediately after the interim reporting period) to determine fair value.

Pohutukawa II received income from dividends, interest and fees of \$433,608 and recognised a \$10.0 million uplift in the fair value of investments and a \$1.03 million gain from investments, the latter relating to a share capital buy-back as part of the Scales-GHI demerger. Administrative expenses, comprising mainly management fees, were \$702,286, compared to \$1,018,714 for the previous corresponding period. There was interest expense of \$51,217 relating to short term use of our Westpac facility. The profit for the period was \$10.7 million compared to a profit of \$3.1 million 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 provide a news alert email service and if you would like to avail yourself of this service please contact the Manager.

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 to report on the financial performance of the portfolio companies for the six months to 30 June 2014.

The period has been pleasing for the portfolio companies and this is reflected in the positive change of \$10.0 million in portfolio company valuations during the period. The movement in valuations for the period equates to an increase in Net Asset Value (NAV) of 12 cps or 18%.

In respect of new investments, the Manager continues to actively review new investments which meet our investment mandate. Whilst the volume of new investments remains consistent, on several occasions the current competitive landscape has prevented us from transacting on prices we consider to be fair value. We remain confident that the existing portfolio will contribute good returns from imputed dividends and long term capital growth. We continue to consider portfolio expansion by way of bolt-on acquisitions in the existing portfolio.

More detailed performance targets and prospects are highlighted in the portfolio company summaries that follow.

TRANSACTION SERVICES

www.debitsuccess.co.nz

transaction**services**

Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	11.7	3,513,107
Direct Capital IV	33.1	9,990,127
Co-Investment	3.8	1,149,479
Management	51.4	15,500,098
	100.0	30,152,811
Total Direct Capital shareholding 48.6%		

Background

Transaction Services is the largest third party recurring payment processing company in Australia, NZ and the UK.

Performance

The performance of the two recent UK acquisitions has been highly encouraging with trading results meeting all expectations. Business development activity levels across both businesses are high, and the company has been particularly successful with several large client wins in the UK. The UK operations now contribute about one third of group revenue.

The Australasian business also continues to beat expectations with growth being achieved in both the NZ and Australian markets.

The Company is also currently reviewing entry into the American market.

Outlook

The subscription economy is revolutionising the way organisations collect recurring payments and Transaction Services is leading the industry in each of its markets.



Manager’s Report on Portfolio Companies

BAYLEY CORPORATION

www.bayleys.co.nz



Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	7.4	441,317
Direct Capital IV	21.2	1,262,582
Co-Investment	2.5	147,953
Management	69.0	4,115,475
	100.0	5,967,327
Total Direct Capital shareholding 31%		

Background

Bayleys is a property services company operating nationally from 68 locations, and 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 Services Group offers facilities and asset management, valuation, leasing, research and advisory services.

Performance

Bayleys’ earnings result for its financial year to March 2014 was ahead of expectations and the prior year, and represented the strongest result in the Company’s history. A growing national coverage and increasing level of sales and leasing volumes helped drive the result, as well as Bayleys growing Property Services Group, which is now a meaningful contributor to the group result.

Bayleys Property Services is a professional service provider to clients in the commercial and industrial sector, an area where Bayleys has a large and established presence on the brokerage side of its business, which has grown strongly over the last few years. Bayleys won the Best Large Commercial and Industrial Office award at the Real Estate Institute awards this year, for the third consecutive year.

Bayleys acquired the facilities and property management business of NZ-listed Augusta Capital and its recently purchased KCL property portfolio, which will be incorporated into Bayleys Services Group. Bayleys also established a Residential Property Management business during the period.

Bayleys’ residential market share (by volume & by value) reached new highs at 30 June 2014. While the introduction of LVR restrictions and rising interest rates have impacted the residential market, with total NZ house sales down 11% in the first half of 2014, Bayleys house sales have held steady.

Outlook

While the outlook for residential sales is muted, Bayleys continues to experience strong growth in commercial and industrial sales activity. Bayleys continuing expansion into property services and its recent acquisition of Augusta’s property management business mean that the Property Services Group will again contribute more to the group result than in the previous period.

Manager's Report on Portfolio Companies

CAVALIER WOOL HOLDINGS

www.cavalierwoolscourers.co.nz



Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	6.0	348,752
Direct Capital IV	17.0	997,755
Co-Investment	2.0	116,919
Management	75.0	4,390,278
	100.0	5,853,704
Total Direct Capital shareholding 25%		

Background

Cavalier Wool Holdings Limited (CWH) is one of two wool scouring businesses in New Zealand. 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

Annual wool processing volumes were in line with industry expectations, reflecting a reduction in sheep numbers during the 2013/14 production year. Positive growing conditions and an improvement in lambing percentages is expected to support more consistent volume levels in the medium term. As expected, sales of wool grease, an important by-product of wool scouring used in a wide range of products, experienced lower prices in FY14 compared to the historical highs achieved during FY13. Current forward-sales of FY15 wool grease production have achieved a lift in pricing reflecting a return to the long-run demand growth for wool grease.

Outlook

Industry data forecasts a medium term outlook of stable sheep numbers and wool volumes. Wool grease demand and therefore pricing, is expected to continue to lift in line with its long-run average.

Manager's Report on Portfolio Companies

SCALES CORPORATION

www.scalescorporation.co.nz



Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	9.6*	11,454,315
Direct Capital IV	27.4	32,770,149
Co-Investment	47.2	56,484,564
Management/External	15.8	18,882,978
	100.0	119,592,006
Total Direct Capital shareholding 84.2%*		

*Post IPO PII shareholding 2.8% and Direct Capital shareholding 18.05%

Background

During the period Scales undertook the following shareholder initiatives:

1. In April 2014 the company undertook a demerger and created a new entity George H Investments Limited ("GHI"). GHI holds four industrial properties and NZX listed shares and is reported on separately. The shareholding percentage for Pohutukawa remained unchanged;
2. Scales completed an Initial Public Offer ("IPO") with the settlement and trading on the NZX commencing 25 July 2014. As part of the IPO Pohutukawa sold 66% of its shareholding and has retained the balance which is subject to escrow until at least March 2016.

As Scales is now a listed entity, the portfolio company commentary is limited to publicly available information.

Performance

For the half year financial reports the Scales investment is revalued at the IPO price (\$1.60 per share), with the escrowed Scales shares discounted to recognise the contractual restrictions attributable to the residual shareholding.

Scales announced its interim results for the period ending 30 June 2014 to the market on 29 August 2014. Net profit before tax was \$28.9 million for the six months ended 30 June 2014. The company affirmed its full year 2014 prospectus forecasts.

Outlook

The 2014 prospective financial information forecast for net profit before tax is \$22.5 million as the seasonal nature of the Scales business and inventory valuation principles means first half profit before tax tends to be higher than the full year results.



Manager's Report on Portfolio Companies

GEORGE H INVESTMENTS LIMITED

Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	9.6	3,818,105
Direct Capital IV	27.4	10,923,383
Co-Investment	47.2	18,828,188
Management/External	15.8	6,294,326
	100.0	39,864,002
Total Direct Capital shareholding 84.2%		

Background

George H Investments Limited (GHI) is a company which holds various investment assets. GHI was demerged from Scales Corporation prior to the Scales IPO.

GHI's principal assets are:

- Three industrial parks (at Whakatu and Groome Place in Hawke's Bay and Silverstream in Mosgiel).
- A section on Canada Crescent, Christchurch.
- A 10.3% shareholding in NZX listed Turners & Growers.

Performance

Management are reviewing and implementing a number of initiatives to maximise the value of the property assets, including further subdivisions and property development projects.

During the period the company received a dividend on its Turners & Growers shareholding.

Outlook

Positive progress is expected over the coming year to maximise the value of the various investments with any realised funds to be distributed to shareholders.

Manager's Report on Portfolio Companies

PF OLSEN GROUP

www.pfolsen.co.nz



Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	9.5	178,382
Direct Capital IV	27.3	510,340
Co-Investment	3.2	59,802
Management/Other	60.0	1,120,476
	100.0	1,869,000
Total Direct Capital shareholding 40%		

Background

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

Performance

PF Olsen performed to expectation with growth again achieved over the previous half year period to 30 June. New Zealand harvesting management income is starting to show the early signs of a downturn in the export log market, however this has so far been more than offset by strong performances from PF Olsen's offshore activities, and growing asset management income in

New Zealand. During the period PF Olsen was appointed to manage a large former Regional Council estate.

PF Olsen project managed the development of an export market for a large volume of standing wood near NSW, which previously had no domestic or export outlet. An integrated logistics programme will see logs containerised and hauled from Bathurst to Port Botany in NSW, and exported.

PF Olsen paid a further dividend in March and at the time of writing Pohutukawa II has received back 68% of investment cost in PF Olsen in the form of imputed dividends.

Outlook

Export log prices have fallen in line with other commodity prices, which will likely reduce harvesting management fees for the second half of the year, particularly for smaller and remotely located timberlands where harvesting may become less economically viable. However, steady timberland asset management income and increasing earnings from Australia are likely to offset the drop in NZ harvesting activity, and PF Olsen is expected to at least maintain the prior year's result.

Manager's Report on Portfolio Companies

HIWAY GROUP

www.hiwaygroup.co.nz



Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	14.3	3,398,719
Direct Capital IV	40.9	9,723,542
Co-Investment	4.8	1,139,430
Management/Other	40.0	9,507,793
	100.0	23,769,484
Total Direct Capital shareholding 60%		

Background

Hiway group is a leading Australasian roading and infrastructure services contractor, including geo-technical services.

Performance

The Company trading result for the full financial year to March 2014 was a further increase on 2013 and ahead of expectations. As a result the company has made significant distributions to shareholders.

For the current year trading is tracking behind expectations. Each of the key divisions has experienced a challenging operating environment principally due to a rapid change in overall road maintenance funding in Queensland and one-off project issues in Christchurch.

The Company continues to focus and develop internal systems and reporting for Health and Safety. This impacts on all staff within the business with senior management providing strong leadership.

Outlook

Although the outcome of the wider Auckland roading contracts is pleasing, there remains an overall reduction in the level of the maintenance spend nationally, with Hiway adapting to the ongoing level of activity.

Hiway is making good progress diversifying the business across the East coast of Australia, although the reduction in Queensland work is having an overall impact. This transition remains a key focus for management.

The Geo-tech business continues to develop in Christchurch. Although a select number of specific projects have not met expectations during this period the outlook continues to remain promising.



Manager’s Report on Portfolio Companies

ENERGYWORKS HOLDINGS

www.energyworks.net.nz



Shareholder Statement as at 30 June 2014	Shareholding %	Number of Shares
Pohutukawa II	16.7	4,637,533
Direct Capital IV	47.7	13,267,721
Co-Investment	5.6	1,554,745
Management	30.0	8,340,000
	100.0	27,800,000
Total Direct Capital shareholding 70%		

Background

Energyworks is a leading provider of engineering solutions to the Australasian oil, gas and petrochemical industry.

Performance

Revenue during the period was above expectations and the prior year, although margins varied as the mix in work shifted. A number of new senior appointments were made during the period, including CFO and COO.

Energyworks re-established an Australian subsidiary and pleasingly, is having quick success in securing work with blue chip clients. The business is actively investing in its Australian

initiatives and is making a number of key appointments, investing in infrastructure, and investigating acquisition opportunities. Pohutukawa II participated in a recent capital raise which will support the Australian expansion.

Energyworks commissioned its new purpose built industrial coatings facility, which received accreditations from customer environmental auditors, and Energyworks has commenced targeting new work in the petrochemical space on the back of the facility. The business also invested in BOSIET (Basic offshore safety instruction and emergency training) to train a number of mechanical crews in order to establish offshore platform mechanical maintenance capabilities.

Outlook

Energyworks has won a number of large construction and installation projects in New Zealand and Australia in recent months which coupled with its long term maintenance contracts expects to outperform expectations for the remainder of its FY15 financial year.

Financial Information

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2014

	Note	Unaudited 6 months Jun 2014	Unaudited 6 months Jun 2013	Audited 12 months Dec 2013
Interest income		27,110	49,205	84,957
Dividends received		338,796	1,511,189	2,212,318
Change in fair value of investments	1d, 10	9,961,439	2,570,211	5,759,082
Gain on sale of investments	4	1,030,888	-	-
Advisory fee income		67,702	-	-
Administrative expenses		(702,286)	(1,018,714)	(2,081,369)
Operating profit		10,723,649	3,111,891	5,974,988
Finance expenses - interest		(51,217)	-	-
Profit before tax		10,672,432	3,111,891	5,974,988
Tax expense		-	-	-
Profit after tax		10,672,432	3,111,891	5,974,988
Attributable to:				
Owners of the parent		277,516	(204,777)	(420,564)
Non-controlling interests	1c	10,394,916	3,316,668	6,395,552
Profit for the period		10,672,432	3,111,891	5,974,988
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period attributable to the equity holders of stapled securities		10,672,432	3,111,891	5,974,988

Consolidated interim statement of changes in equity

For the six months ended 30 June 2014

	Attributable to equity holders of the parent				
	Share capital	Retained earnings	Total	Non-controlling interest	Total equity
Unaudited					
Balance at 1 January 2014	34,434,751	(5,669,309)	28,765,442	9,359,090	38,124,532
Total comprehensive income	-	277,516	277,516	10,394,916	10,672,432
Distributions to equity holders	-	-	-	(1,443,605)	(1,443,605)
Redemption of share capital	(1,030,887)	-	(1,030,887)	-	(1,030,887)
Issued Capital	8,250,000	-	8,250,000	-	8,250,000
Balance at 30 June 2014	41,653,864	(5,391,793)	36,262,071	18,310,401	54,572,472
Unaudited					
Balance at 1 January 2013	37,414,736	(5,248,745)	32,165,991	4,996,619	37,162,610
Total comprehensive income	-	(204,777)	(204,777)	3,316,668	3,111,891
Distributions to equity holders	-	-	-	(1,781,555)	(1,781,555)
Balance at 30 June 2013	37,414,736	(5,453,522)	31,961,214	6,531,732	38,492,946
Audited					
Balance at 1 January 2013	37,414,736	(5,248,745)	32,165,991	4,996,619	37,162,610
Total comprehensive income	-	(420,564)	(420,564)	6,395,552	5,974,988
Redemption of share capital	(2,979,985)	-	(2,979,985)	-	(2,979,985)
Dividends paid	-	-	-	(2,033,081)	(2,033,081)
Balance at 31 December 2013	34,434,751	(5,669,309)	28,765,442	9,359,090	38,124,532



Financial Information

Consolidated interim statement of financial position

As at 30 June 2014

	Note	Unaudited Jun 2014	Unaudited Jun 2013	Audited Dec 2013
Assets				
Investments – equity securities	4	51,950,138	34,756,419	36,524,238
Total non-current assets		51,950,138	34,756,419	36,524,238
Loans and receivables	3	-	1,326,579	-
Receivables and prepayments	2	82,391	25,881	14,249
Cash and cash equivalents	5	2,616,909	2,415,592	1,635,679
Total current assets		2,699,300	3,768,052	1,649,928
Total assets		54,649,438	38,524,471	38,174,166
Equity				
Issued capital		41,653,864	37,414,736	34,434,751
Retained losses		(5,391,793)	(5,453,522)	(5,669,309)
Total equity attributable to equity holders of the parent		36,262,071	31,961,214	28,765,442
Non-controlling interest	1c	18,310,401	6,531,732	9,359,090
Total equity attributable to equity holders of stapled securities		54,572,472	38,492,946	38,124,532
Liabilities				
Trade and other payables		76,966	31,525	49,634
Total current liabilities		76,966	31,525	49,634
Total non-current liabilities		-	-	-
Total liabilities		76,966	31,525	49,634
Total equity and liabilities		54,649,438	38,524,471	38,174,166

For and on behalf of the Board

Director

5 September 2014

Date

Director

5 September 2014

Date



Financial Information

Consolidated interim statement of cash flows

For the six months ended 30 June 2014

	Unaudited Jun 2014	Unaudited Jun 2013	Audited Dec 2013
Cash flows from operating activities			
Cash receipts from advisory fees	67,702	-	-
Interest received	18,125	74,939	113,863
Dividends received	338,796	1,511,189	2,212,318
Interest paid	(51,217)	-	-
Cash paid to suppliers	(681,611)	(1,059,733)	(2,095,819)
Net cash from operating activities	7 (308,205)	526,395	230,362
Cash flows from investing activities			
Acquisition of investments	(5,464,461)	-	(89,367)
Realisations from investments	1,030,888	-	2,979,985
Net cash from investing activities	(4,433,573)	-	2,890,618
Cash flows from financing activities			
Proceeds from share capital	8,197,500	-	-
Redemption of preference shares	(1,030,887)	-	(2,979,985)
Loans repaid / advanced by related parties	-	142,987	-
Distributions to equity holders	(1,443,605)	(1,781,555)	(2,033,081)
Net cash from financing activities	5,723,008	(1,638,568)	(5,013,066)
Net movement in cash and cash equivalents	981,230	(1,112,173)	(1,892,086)
Cash and cash equivalents at beginning of period	1,635,679	3,527,765	3,527,765
Cash and cash equivalents at end of period	5 2,616,909	2,415,592	1,635,679

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 2014 comprise the Company and 25 Investment Companies (30 June 2013: 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 2013.

The interim financial statements were approved by the Directors on 5 September 2014.

(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 2013.

(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)

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 International Private Equity and Venture Capital Association Limited (IPEV) valuation guidelines.

(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 2014	Unaudited Jun 2013	Audited Dec 2013
GST receivable	-	2	7,271
Interest receivable	8,984	-	-
Other receivables	52,508	4,980	12
Prepayments	20,899	20,899	6,966
	82,391	25,881	14,249

3. Loans and receivables

	Unaudited Jun 2014	Unaudited Jun 2013	Audited Dec 2013
Hiway Group Limited	-	1,326,579	-

Financial Information

Notes to the consolidated interim financial statements

4. Investments

(a) 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.

The investment in Scales Corporation Limited has been valued at the July 2014 IPO price of \$1.60 per share with a 10% discount applied to the escrow shareholding as a result of the contractual restrictions associated with these shares.

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 difference between the cost of \$29,902,446 (30 June 2013: \$25,097,445) and the carrying value of \$51,950,138 (30 June 2013: \$34,756,419) 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 2014 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting interest	Unaudited Jun 2014 Cost of acquisition	Unaudited Jun 2013 Cost of acquisition	Audited Dec 2013 Cost of acquisition
Transaction Services Limited ¹	3rd party payment processing	Jan 2010	11.7%	4,831,332	4,822,629	4,099,235
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
Scales Corporation Limited ²	Agri-services	Jul 2011	9.6%	3,818,105	7,636,210	7,636,210
George H Investments Limited ²	Investment assets	Jul 2011	9.6%	3,818,105	-	-
PF Olsen Group Limited	Forestry management	Sep 2011	9.5%	2,487,620	2,392,789	2,392,789
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	14.3%	3,398,719	3,334,785	3,398,718
Energyworks Holdings Limited	Energy sector service provider	Jan 2014	16.7%	4,637,533	-	-
				29,902,446	25,097,445	24,437,984

¹ The cost price of the investment in Transaction Services Limited has been adjusted in June 2014 to reflect the correct recording of prior period capital returns. These adjustments to the current and prior period costs have no effect on current or prior period balance sheet positions or profit.

² The investment in George H Investments Limited was recognised as part of a 50% de-merger and share capital buy-back from Scales Corporation Limited. This resulted in a gain on sale of \$1,030,888.



Financial Information

Notes to the consolidated interim financial statements

5. Cash and cash equivalents

	Unaudited Jun 2014	Unaudited Jun 2013	Audited Dec 2013
Call deposits	116,909	601,724	1,635,679
Short-term deposits	2,500,000	1,813,868	-
	<u>2,616,909</u>	<u>2,415,592</u>	<u>1,635,679</u>

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 2014 is 3.35%(2013: 3.00%).

Short-term deposits are held with ANZ Bank New Zealand Limited for periods of up to 90 days and have interest rates ranging from 3.49% to 3.95% (June 2013: 2.85% to 3.00%).

6. 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. As at 30 June 2014 the Group had no funds drawn down (2013: \$Nil).

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

	Unaudited Jun 2014	Unaudited Jun 2013	Audited Dec 2013
Profit for the period	10,672,432	3,111,891	5,974,988
<i>Adjustments for:</i>			
Changes in fair value of investments – equity securities	(9,961,439)	(2,570,211)	(5,759,082)
Call monies receivable	52,500	-	-
Gain on sale of investments	(1,030,888)	-	-
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	(15,989)	15,962	27,596
Change in trade and other payables	(24,821)	(31,247)	(13,140)
Net cash from operating activities	<u>(308,205)</u>	<u>526,395</u>	<u>230,362</u>

Financial Information

Notes to the consolidated interim financial statements

8. Financial risk management

(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 2014	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	17,702,132	34,248,006	51,950,138
30 June 2013	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	34,756,419	34,756,419
31 December 2013	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	36,524,238	36,524,238

The equity investment in Scales Corporation Limited has transferred to a level 2 investment in the current period as the valuation method changed during the period to include observable market data. There have been no other transfers between levels during the period.

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

Investments	Jun 2014	Dec 2013
Opening balance	36,524,238	33,655,774
Transfer to Level 2 fair value hierarchy	(10,646,712)	-
Total gains/(losses):		
Change in fair value	(911,996)	5,759,082
Investments at cost during the year	9,282,476	89,367
Divestments	-	(2,979,985)
Closing balance	34,248,006	36,524,238

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

Investments	2014	2013
Total gains included in profit or loss for the period	10,992,327	5,759,082
Total gains for the period included in profit or loss for assets held at the end of the reporting period	9,961,439	5,759,082

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 8(c) for sensitivity analysis with regards to the earnings multiple or adjustment factor.

Financial Information

Notes to the consolidated interim financial statements

8. Financial risk management (continued)

(b) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at 30 June 2014 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 30 June 2014	Valuation technique	Unobservable input	Range	Sensitivity to changes in significant unobservable inputs
Unlisted private equity instruments	\$34,248,006	Market approach using comparable traded multiples	EBITDA multiple Discount for lack of marketability	4.8 – 8.8 20%	The estimated fair value would increase if: <ul style="list-style-type: none"> • the EBITDA multiples were higher; or • the discount for lack of marketability were lower

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 judgement 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 \$1,155,475.

A movement in the adjustment factor of 5% changes the value of the investments by \$2,999,084. A movement in the maintainable earnings of 5% changes the value of the investments by \$2,094,748.

Financial Information

Notes to the consolidated interim financial statements

9. 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.

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 \$602,889 (30 June 2013: \$931,605). At the end of the reporting period no management fees or interest were owing to Pohutukawa II Management Limited (30 June 2013: \$Nil).
- Craigs Investment Partners Limited paid certain expenses of Pohutukawa Private Equity II Limited. As at 30 June 2014, no amounts remained owing to Craigs Investment Partners Limited (30 June 2013: \$Nil).
- 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 2014 the balance held was \$115,493 (30 June 2013: \$601,724).
- Direct Capital IV Management Limited paid certain expenses on behalf of Pohutukawa Private Equity II Limited. As at 30 June 2014, no expenses were owing to Direct Capital IV Management Limited (30 June 2013: \$9,869).

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 2014	Unaudited Jun 2013	Audited Dec 2013
Directors fees (total remuneration)	42,500	42,500	85,000

The balance owing to key management personnel at 30 June 2014 is \$21,250 (30 June 2013: \$21,250).

10. Subsequent events

Scales Corporation Limited (Scales) registered a prospectus for the initial public offering of ordinary shares in the company on 20 June 2014. Scales listed on the NZX on 25 July 2014. Pohutukawa II sold down 7,549,492 Scales shares (representing 65.9% of the total holding) into the IPO, realising \$12,079,187. The IPO share value has been recognised in the 30 June 2014 Consolidated interim statement of comprehensive income.

Pohutukawa II made a gross distribution of \$12,927,125 comprising capital of \$12,079,187 received from the Scales share sell-down plus a net dividend from Scales of \$610,500.



Auditor's Review Report



To the shareholders of Pohutukawa Private Equity II Limited

We have completed a review of the interim financial statements on pages 13 to 22 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board. The financial statements provide information about the past financial performance of Pohutukawa Private Equity II Limited and its financial position as at 30 June 2014.

Directors' responsibilities

The Directors of Pohutukawa Private Equity II Limited are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the Group as at 30 June 2014 and the results of its 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 interim financial statements presented by the Directors and report our opinion to you.

Basis of opinion

A review is limited primarily to enquiries of company 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.

Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditors of the company. The firm has no other relationship with, or interest in, the company.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 13 to 22 do not give a true and fair view of the financial position of the Group as at 30 June 2014 and the results of its 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 5 September 2014 and our opinion is expressed as at that date.

5 September 2014
Tauranga



Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald
Neil Craig
Maurice Prendergast
Mike Caird

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

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