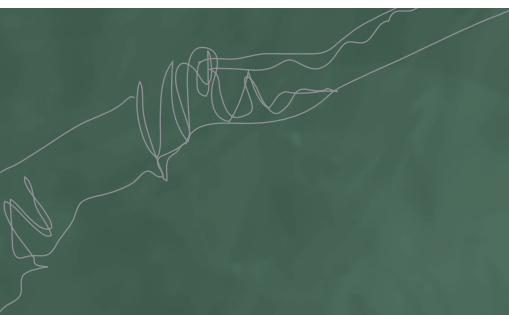




Interim Report
For the half year ended 30 June 2016

Pohutukawa
PRIVATE EQUITY II LIMITED





Contents

Report to Shareholders	2
Investment Manager's Report on Portfolio Companies	5
Consolidated interim statement of comprehensive income	12
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

September 2016

Dear Shareholder

I am pleased to present Pohutukawa II's 2016 Interim Report. The report includes the financial statements for the interim period to 30 June 2016 with commentary on the performances of our portfolio companies and their prospects for 2016.

Pohutukawa II Fund

Pohutukawa II offer raised \$82.5 million of Committed Capital in February 2009. Pohutukawa II co-invests with the Direct Capital IV Fund which together totals \$325 million. Pohutukawa II has called \$51.1 million to the period ended 30 June 2016. On 18 December 2014 the Board decided to cap the maximum amount to be called to 80 cents per share (cps), i.e. a reduction of 20 cps in total committed capital. Currently you have paid 62 cps with a further 18 cps to be called if required.

Portfolio Performance Summary

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

Direct Capital negotiated the sale of 11,337,736 of George H Investment's 12,365,368 shares in T&G Global Limited (formerly Turners & Growers Limited) to Golden Wing Mau Agricultural Produce Corporation (Golden Wing Mau) at \$2.95 per share, generating total proceeds of \$33.5 million. The sale is subject only to Golden Wing Mau receiving certain Chinese regulatory clearances which were achieved after the balance date and the transaction has subsequently settled. Pohutukawa shareholders can expect a distribution in November.

With the realisation of our shareholding in Scales Corporation Pohutukawa II has six remaining investments at the end of the interim period.

The majority of the portfolio companies have performed soundly during the interim period producing positive valuation gains.

Where opportunities present, the portfolio companies are pursuing growth strategies.

- Hiway Group continues to benefit from the ongoing growth in subdivision development in Auckland, the upper North Island and sub contractor maintenance works in Auckland and other regions; and in Australia positive progress continues in Victoria and southern regions;
- Cavalier Wool Holdings (CWH) and Wool Services International received a positive ruling from the Commerce Commission on their proposed merger, although this is again being contested by Godfrey Hirst in the Court of Appeal;
- PF Olsen has seen an increase in harvest management fees driven by increased log prices, and secured the asset management contract for a large forestry estate acquired by an offshore owner.
- Bayley's acquired a majority stake in Realty Services Holdings Ltd in May 2016 which has offices throughout the Waikato and Bay of Plenty; Bayleys has seen volumes and commissions up across most industry segments, particularly residential, commercial, industrial and leasing;
- George H Investments has made some positive realisation progress with the sale of industrial properties and the sale of a large portion of its shareholding in T&G Global; and
- Energyworks traded in line with expectations although the winter period was challenging.

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



Report to Shareholders

Distributions to Shareholders

Net capital proceeds received from our residual investment in Scales Corporation and the receipt of portfolio company dividends enabled Pohutukawa II to make a gross distribution of 10.24 cps to shareholders on 15 April 2016. This means Pohutukawa II has now made gross distributions of \$65.9 million, equivalent to 79.8 cps compared to shareholder contributed capital to date of 62 cps. This is a very good result for a Fund of this vintage.

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

Portfolio Company Investments

The original investment cost of the current portfolio was \$24 million.

There have been no new investments and we anticipate only making follow-on investments in the existing portfolio companies, or parallel investments to the existing portfolio companies.

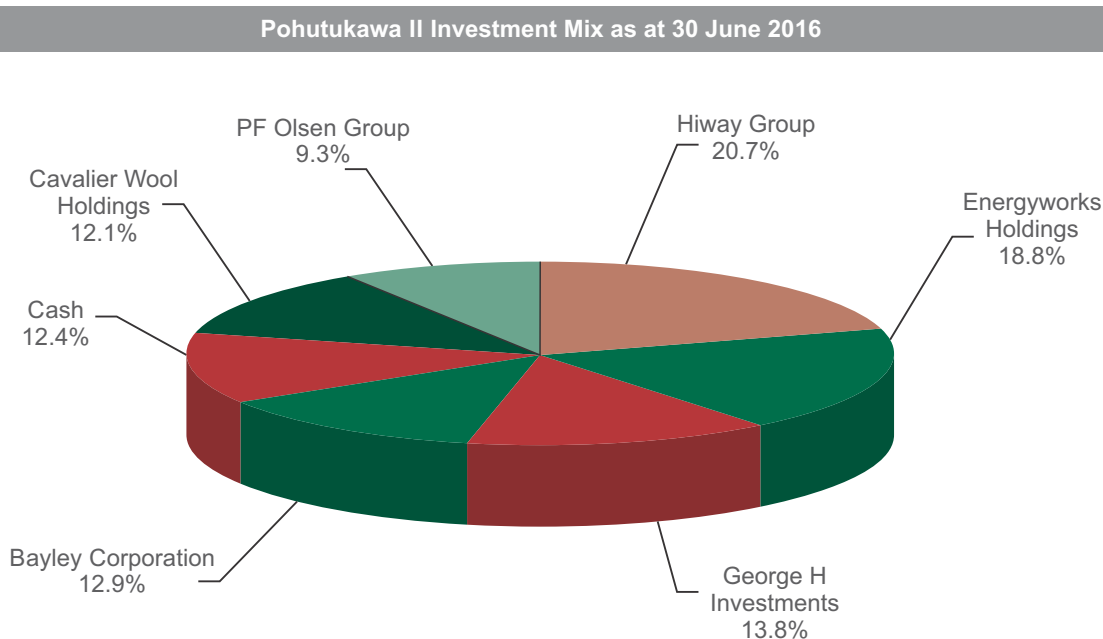
The investments and cash weightings at 30 June 2016 are shown in Chart 1.

Table 1 Summary of Investor Returns

Gross Returns to 30 June 2016	
Total capital paid	\$0.62
Gross Returns to Investors	
September 2011	0.02
September 2012	0.04
May 2013	0.03
November 2013	0.04
May 2014	0.04
August 2014	0.16
April 2015	0.02
November 2015	0.35
April 2016	0.10
Gross Return	0.80
Assessed Net Asset Value 30 June 2016*	0.28
Estimated Total Gross Return	\$1.08

*Includes provision of earnout

Chart 1 – Pohutukawa II Investment Mix 30 June 2016 (at cost)



Report to Shareholders

Portfolio Company Investment Revaluations

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

The portfolio was valued at \$26.0 million at 30 June 2016 compared to the investment cost of \$24.2 million. Shareholders have received distributions of \$65.9 million.

Interim Financial Statements 30 June 2016

Our interim financial statements for the half year ended 30 June 2016 and KPMG Audit Review are included in this report.

As at 30 June 2016 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62 cps.

At the interim balance date, shareholder funds were \$23.14 million, equivalent to a net asset backing of 28 cps. Pohutukawa II is in a strong financial position.

The main assets comprised:

- Investments and loans \$26.1 million
- Cash \$3.4 million

The item *non-controlling interest* in the statement of financial position refers to the equity of the Investment Companies. These non-controlling interests are attributable to Pohutukawa II shareholders as a result of their preference shares held in the Investment Companies.

Income was derived from interest of \$71,223 on our short-term deposits. Dividend income of \$966,638 was received from portfolio companies.

The investment portfolio was re-valued under the fair value method at 30 June 2016. There was a \$2.82 million uplift in fair value of investments. The sale of the residual investment in Scales Corporation resulted in a net gain on sale of \$388,589 against its previous recognised fair value.

Administrative expenses were \$589,596 (June 2015: \$613,569).

The profit for the period was \$3.09 million (June 2015: \$4.81 million)

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

Call Programme

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

Secondary Market

Craigs Investment Partners facilitates a secondary market for your Pohutukawa II shares, and details are available on the Pohutukawa website www.pohutukawafund.co.nz

The last sale price for Pohutukawa II shares was 23 cents while the net asset backing was 28 cps after allowing for earnout.

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

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

Yours sincerely
POHUTUKAWA PRIVATE EQUITY II LIMITED



John McDonald
 Chairman

Investment Manager's Report on Portfolio Companies



The Manager is very pleased to report on the successful portfolio performance for the interim period to 30 June 2016.

The interim period has been positive for the portfolio which has seen the realisation of the residual shareholding in Scales Corporation and subsequent gross distributions of imputed dividends and capital of 10.24 cps. In addition during the June quarter the negotiation of the sale of 11,337,736 of George H Investment's 12,365,368 shares in T&G Global Limited

(formerly Turners & Growers Limited) to Golden Wing Mau Agricultural Produce Corporation which subsequent to balance date, has now settled.

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

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

Investment Manager’s Report on Portfolio Companies

BAYLEY CORPORATION

www.bayleys.co.nz



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
June 2010	Real Estate	Expansion /succession	\$3,575	7.4*

* Total shareholding managed by Direct Capital 31%

Background

Bayleys is a property services company operating nationally from 90 corporate owned and franchise offices, and has a leading position in marketing commercial, industrial, rural properties, and high-value residential property sales. In addition to real estate agency, Bayleys offers facilities and asset management, valuation, leasing, research and advisory services.

Performance

Bayleys’ result for its financial year to March 2016 was ahead of expectations and the previous year, and again represented a record result for the Company. The robust performance enabled Bayleys to make a number of significant fully imputed dividend distributions during the year whilst investing into growth initiatives.

Bayleys experienced a strong start to FY17 and performance across the group has been pleasing with growth achieved in most areas relative to expectations and the prior year. Bayleys business is increasingly diversified by service and by location and is continuing to positively expand its marketshare.

Bayleys made a number of strategic acquisitions in recent months which will lift the footprint and profile of the business.

Outlook

The industry outlook is mixed with lower levels of residential activity occurring in Auckland while regional residential activity accelerates. Rural activity appears to be improving and conditions are conducive to good levels of activity in the commercial and industrial sector. Bayleys’ asset management and property services division is expected to continue on its growth trajectory.



Investment Manager's Report on Portfolio Companies

CAVALIER WOOL HOLDINGS

www.cavalierwoolscourers.co.nz



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
December 2010	Wool Scouring	Expansion	\$3,336	6.0*

* Total shareholding managed by Direct Capital 25.0%

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, removing grease and contaminants to produce 'clean' wool ready for either local conversion into carpet, or export shipment. A major by-product is wool grease which is extracted and exported to global customers who further refine and convert it into lanolin, cholesterol and Vitamin D3, for use in cosmetic, pharmaceutical and food grade products.

Performance

The quarter ending 30 June represented the fourth quarter for CWH, and results confirmed an improvement over FY15 results. While the level of wool volume processed was in line with expectations, improved revenue rates across production and logistics, reduced operating costs, partially offset by lower wool grease prices, resulted in improved EBITDA.

The wool grease market remains flat, at prices above FY15 but below FY16 budget expectations.

The key strategic initiative continues to be the proposed merger between CWH and the scouring business of WSI (owned by Lempriere). During the June quarter, the High Court decision on the appeal by Godfrey Hirst was released. The appeal was dismissed on all grounds but that decision was subsequently appealed to the Court of Appeal. This hearing was held in September and CWH remains confident of a positive outcome.

Outlook

Provided the merger of CWH with the scouring business of WSI proceeds, the company will be well-placed to achieve a "right sizing" of the New Zealand wool grease industry.

Another focus for the CWH continues to be securing forward sales volumes for wool grease at acceptable price levels. The company is actively pursuing more strategic supply agreements with its customers and continues to progress testing which it believes could differentiate NZ wool grease from China sourced grease.



Investment Manager's Report on Portfolio Companies

GEORGE H INVESTMENTS



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
July 2011	Agri- Services	Buyout	\$3,818	9.6*

* Total shareholding managed by Direct Capital 84%

Background

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

GHI's principal assets are:

- A 10.1% shareholding in NZX listed T & G Global Limited (T&G);
- Three industrial parks (at Whakatu and Groome Place in Hawke's Bay and Silverstream in Mosgiel);
- A bare section at Canada Crescent, Christchurch.

Performance

During the period Direct Capital negotiated the conditional sale of a 9.25% shareholding in T&G to Joyvio Golden Wing Mau Agricultural Produce Corporation (Golden Wing Mau) at \$2.95 per share. The purchase by Golden Wing Mau was part of a total purchase of a 19.9% interest in T&G.

The sale was settled on 15 September 2016 and the company will now proceed to distribute these funds alongside proceeds from property sales.

Final titles for all residual properties are expected in the next quarter which will enable the company to more actively pursue opportunities for all the remaining sites.

Post GHI's Annual Meeting the company paid a fully imputed dividend of 8c per GHI share in late July.

Outlook

The company is pleased with the prospects for the remaining assets which now include:

- Approximately 1.0 million shares in T&G which is considered to be an attractive and liquid holding;
- Twelve lots at Silverstream Industrial Park;
- Five lots at Whakatu Industrial Park;
- Two lots at Groome Place, including one lot subject to an option and one 8 hectre lot; and
- One lot at Canada Crescent, subject to an option until December 2016.

Investment Manager's Report on Portfolio Companies

PF OLSEN GROUP

www.pfolsen.co.nz



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

* Total shareholding managed by Direct Capital 40%

Background

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

Performance

Trading for the half year to 30 June 2016 has been positive, with trading up against current year expectations and the prior year. Export log market conditions have firmed leading to increased appetite from PF Olsen clients to commence harvesting operations, which positively impacts management fees.

PF Olsen remains at the forefront of industry initiatives to improve health and safety, and the injury frequency rates of forestry contractors engaged by PF Olsen continue to decline and are at record low levels.

Outlook

Firm export log market conditions and a newly secured asset management contract leave PF Olsen well positioned for the remainder of 2016.



Investment Manager’s Report on Portfolio Companies

HIWAY GROUP

www.hiwaygroup.co.nz



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
December 2011	Infrastructure Services	Buyout	\$5,716	14.3*

* Total shareholding managed by Direct Capital 60%

Background

Hiway group is a specialist Australasian roading and infrastructure services contractor, including geotechnical services. Hiway Group operates through two main operating companies, Hiway Stabilizers and Hiway Geo Technical 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 period under review is pleasing leading to positive EBITDA results ahead of expectations and significantly ahead of the same period last year. Strong levels of activity in the New Zealand stabilisation market particularly in Auckland for both road maintenance and residential subdivisions has been matched with strong margins generated from high utilisation.

Geo Technical projects in the North Island remain steady while the increased maintenance work in Victoria and improved activity from full service projects in Queensland have contributed to the positive result for the period.

Outlook

The business continues to benefit from the ongoing growth in subdivision development in the upper North Island which is forecast to continue over the next several years.

The business will be required to invest in new plant and processing capacity to meet forecast strong growth in both significant road projects and residential growth. Geo Technical management is focussed on achieving an increased balance of regular maintenance projects to fill the timing gaps.

The company has now established a dedicated branch in NSW to take advantage of the significant levels of capital infrastructure spend over the next five years that has been pre-funded by state government.



Investment Manager's Report on Portfolio Companies

ENERGYWORKS HOLDINGS

www.energyworks.net.nz

innovations in the pipeline
energyWORKS
 LIMITED

Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
December 2011	Infrastructure Services	Buyout	\$5,180	16.7*

* Total shareholding managed by Direct Capital 70%

Background

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

Performance

Energyworks FY17 year to date performance has been in line with expectations and above the prior year, although industry conditions remain challenging. Current year results include a marked ramp-up in maintenance work, including a number of processing facility maintenance outages.

The business made progress in expanding its maintenance book and growing its industrial coatings business during the year. Project work continues to be very soft which makes the planning of internal resources a challenge for the business.

A new Chief Executive was appointed in February 2016.

Outlook

The outlook for project work remains weak for the remainder of the calendar year although there are indications that conditions may start to improve next year. Energyworks retains a solid level of maintenance work however the scheduling of major projects is lumpy which will require ongoing close management of resources.





Financial Information

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2016

	<i>Note</i>	Unaudited 6 months Jun 2016	Unaudited 6 months Jun 2015	Audited 12 months Dec 2015
Interest income		71,223	23,011	111,501
Dividends received		966,638	627,734	1,608,863
Change in fair value of investments	4	2,818,685	4,769,588	4,579,057
Gain on sale of investments	4	388,589	-	14,240,059
(Increase)/Decrease in Earnout provision	6	(562,057)	-	(8,606,764)
Administrative expenses		(589,596)	(613,569)	(1,299,807)
Operating profit		3,093,482	4,806,764	10,632,909
Finance expenses - interest		-	-	-
Profit before tax		3,093,482	4,806,764	10,632,909
Tax expense		-	-	-
Profit after tax		3,093,482	4,806,764	10,632,909
Attributable to:				
Owners of the parent		361,366	243,253	(7,972,685)
Non-controlling interests	1c	2,732,116	4,563,511	18,605,594
Profit for the period		3,093,482	4,806,764	10,632,909
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period attributable to the equity holders of stapled securities		3,093,482	4,806,764	10,632,909

Financial Information

Consolidated interim statement of changes in equity

	Note	Attributable to equity holders of the parent			Non-controlling interest	Total equity
		Share capital	Retained earnings	Total		
Unaudited						
Balance at 1 January 2016		33,790,111	(13,482,145)	20,307,966	8,052,809	28,360,775
Total comprehensive income		-	361,366	361,366	2,732,116	3,093,482
Distributions to equity holders	7	-	-	-	(349,245)	(349,245)
Redemption of share capital	7	(1,534,193)	-	(1,534,193)	(6,425,798)	(7,959,991)
Balance at 30 June 2016		32,255,918	(13,120,779)	19,135,139	4,009,882	23,145,021
Unaudited						
Balance at 1 January 2015		35,048,542	(5,509,460)	29,539,082	14,035,290	43,574,372
Total comprehensive income		-	243,253	243,253	4,563,511	4,806,764
Distributions to equity holders	7	-	-	-	(1,375,919)	(1,375,919)
Issued Capital		4,125,000	-	4,125,000	-	4,125,000
Balance at 30 June 2015		39,173,542	(5,266,207)	33,907,335	17,222,882	51,130,217
Audited						
Balance at 1 January 2015		35,048,542	(5,509,460)	29,539,082	14,035,290	43,574,372
Total comprehensive income		-	(7,972,685)	(7,972,685)	18,605,594	10,632,909
Distributions to equity holders	7	-	-	-	(24,588,075)	(24,588,075)
Redemption of share capital	7	(5,383,431)	-	(5,383,431)	-	(5,383,431)
Issued Capital		4,125,000	-	4,125,000	-	4,125,000
Balance at 31 December 2015		33,790,111	(13,482,145)	20,307,966	8,052,809	28,360,775



Financial Information

Consolidated interim statement of financial position

As at 30 June 2016

	<i>Note</i>	Unaudited Jun 2016	Unaudited Jun 2015	Audited Dec 2015
Assets				
Loans and receivables	3	1,325,560	1,325,560	1,325,560
Investments – equity securities	4	24,792,044	45,308,506	31,579,226
Total non-current assets		26,117,604	46,634,066	32,904,786
Trade and other receivables	2	26,580	309,419	8,294
Cash and cash equivalents	5	3,421,816	4,221,383	4,106,687
Total current assets		3,448,396	4,530,802	4,114,981
Total assets		29,566,000	51,164,868	37,019,767
Equity				
Issued capital		32,255,918	39,173,542	33,790,111
Retained losses		(13,120,779)	(5,266,207)	(13,482,145)
Total equity attributable to equity holders of the parent		19,135,139	33,907,335	20,307,966
Non-controlling interest	<i>1 c</i>	4,009,882	17,222,882	8,052,809
Total equity attributable to equity holders of stapled securities		23,145,021	51,130,217	28,360,775
Liabilities				
Trade and other payables		23,222	34,651	52,228
Total current liabilities		23,222	34,651	52,228
Earnout provision	6	6,397,757	-	8,606,764
Total non-current liabilities		6,397,757	-	8,606,764
Total liabilities		6,420,979	34,651	8,658,992
Total equity and liabilities		29,566,000	51,164,868	37,019,767

For and on behalf of the Board

Director

7 September 2016

Date

Director

7 September 2016

Date

Financial Information

Consolidated interim statement of cash flows

For the six months ended 30 June 2016

	<i>Note</i>	Unaudited Jun 2016	Unaudited Jun 2015	Audited Dec 2015
Cash flows from operating activities				
Interest received		71,223	33,599	122,095
Dividends received		966,638	627,734	1,608,863
Cash paid to suppliers		(636,888)	(646,208)	(1,300,395)
Distribution of earnout	6	(2,771,064)	-	-
Net cash from operating activities		(2,370,091)	15,125	430,563
Cash flows from investing activities				
Acquisition of investments		-	(85,906)	(85,906)
Realisations from investments		9,994,456	-	27,778,808
Net cash from investing activities		9,994,456	(85,906)	27,692,902
Cash flows from financing activities				
Proceeds from share capital		-	3,838,355	4,125,000
Redemption of preference shares		(7,959,991)	-	(5,383,431)
Distributions to equity holders	7	(349,245)	(1,375,919)	(24,588,075)
Net cash from financing activities		(8,309,236)	2,462,436	(25,846,506)
Net movement in cash and cash equivalents		(684,871)	2,391,655	2,276,959
Cash and cash equivalents at beginning of period		4,106,687	1,829,728	1,829,728
Cash and cash equivalents at end of period	5	3,421,816	4,221,383	4,106,687

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

	Unaudited Jun 2016	Unaudited Jun 2015	Audited Dec 2015
Profit for the period	3,093,482	4,806,764	10,632,909
<i>Adjustments for:</i>			
Changes in fair value of investments – equity securities	(2,818,685)	(4,769,588)	(4,579,057)
Gain on sale of investments	(388,589)	-	(14,240,059)
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	(18,286)	(3,435)	11,046
Change in earnout provision	(2,209,007)	-	8,606,764
Change in trade and other payables	(29,006)	(18,616)	(1,040)
Net cash from operating activities	(2,370,091)	15,125	430,563

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 2016 comprise the Company and 12 Investment Companies (30 June 2015: 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 2015.

The interim financial statements were approved by the Directors on 7 September 2016.

(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 2015.

(b) Basis of preparation

The Parent Company is a FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. This is the first period under which the Company has been required to prepare financial statements under this legislation. This has not changed the obligation to prepare financial statements, except that the Parent Company will no longer need to present its own financial statements in addition to those of the Group.

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.

Financial Information

Notes to the consolidated interim financial statements

1. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

Special purpose entities

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

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 Pohutukawa II Investment Holdings Limited Partnership, 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 Pohutukawa II Investment Holdings Limited Partnership as a result of its ownership of the ordinary shares in the Investment Companies.

(d) Investments in equity securities

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

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

(e) Loans and borrowings

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

2. Trade and other receivables

	Unaudited Jun 2016	Unaudited Jun 2015	Audited Dec 2015
GST receivable	5,451	1,865	1,321
Call monies outstanding	-	286,645	-
Prepayments	20,899	20,899	6,966
Other receivables	230	10	7
	26,580	309,419	8,294

3. Loans to portfolio companies

	Unaudited Jun 2016	Unaudited Jun 2015	Audited Dec 2015
Hiway Group Limited	783,402	783,402	783,402
Energyworks Holdings Limited	542,158	542,158	542,158
	1,325,560	1,325,560	1,325,560

Financial Information

Notes to the consolidated interim financial statements

4. Investments

Non-current investments

The Group has investments in unlisted equity securities. Group policy is to carry these investments at fair value with subsequent movements in fair value recognised in profit or loss. As there is no quoted market price for these securities in most instances, valuation techniques are utilised to determine fair value.

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

The following details the equity securities held at 30 June 2016 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting Interest	Unaudited Jun 2016 Cost of acquisition	Unaudited Jun 2015 Cost of acquisition	Audited Dec 2015 Cost of acquisition
Transaction Services Group Limited	3rd party payment processing	Jan 2010	-	-	4,831,332	-
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 ¹	Agri-services	Jul 2011	-	-	1,301,608	1,301,608
George H Investments Limited ¹	Investment assets	Jul 2011	9.6%	3,818,105	3,818,105	3,818,105
PF Olsen Group Limited	Forestry management	Sep 2011	9.5%	2,573,526	2,573,526	2,573,526
Hiway Group Limited	Roading and ground stabilisation	Dec 2011	14.3%	3,437,897	3,437,897	3,437,897
Energyworks Holdings Limited	Energy sector service provider	Jan 2014	16.7%	4,637,533	4,637,533	4,637,533
				21,378,093	27,511,033	22,679,701

¹ The investment in George H Investments Limited was recognised as part of a de-merger and share capital buy-back from Scales Corporation Limited.

Financial Information

Notes to the consolidated interim financial statements

4. Investments (continued)

(a) Fair value hierarchy

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

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

30 June 2016	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	24,792,044	24,792,044
30 June 2015	Level 1	Level 2	Level 3	Total
Investments in listed equity securities	-	5,904,094	-	5,904,094
Investments in unlisted equity securities	-	-	39,404,412	39,404,412
31 December 2015	Level 1	Level 2	Level 3	Total
Investments in listed equity securities	9,605,867	-	-	9,605,867
Investments in unlisted equity securities	-	-	21,973,359	21,973,359

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

Investments	Jun 2016	Dec 2015
Opening balance	21,973,359	35,462,648
Total gains/(losses):		
Change in fair value	2,818,685	(36,444)
Investments at cost during the year	-	85,906
Divestments	-	(13,538,751)
Closing balance	24,792,044	21,973,359

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

Investments	2016	2015
Total gains/(losses) included in profit or loss for the period	3,207,274	18,819,116
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	2,818,685	4,579,057

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

Financial Information

Notes to the consolidated interim financial statements

4. Investments (continued)

(b) Significant unobservable inputs used in measuring fair value

Significant unobservable inputs are developed as follows:

EBITDA multiples:

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

Discount for lack of marketability:

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

(c) Sensitivity Analysis for Unlisted Securities

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by \$792,268. A movement in the adjustment factor of 5% changes the value of the investments by \$1,672,450. A movement in the maintainable earnings of 5% changes the value of the investments by \$1,337,960. A movement in the bid price of listed equities of 5% changes the value of the investments by \$165,146.

The sale of the investment in Scales Corporation Limited resulted in the net gain on sale of \$388,589 against its previous recognised fair value. This has been recognised as a profit in the Statement of Comprehensive Income.

5. Cash and cash equivalents

	Unaudited Jun 2016	Unaudited Jun 2015	Audited Dec 2015
Call deposits	3,421,816	383,028	4,106,687
Call monies held in Trust	-	3,838,355	-
	3,421,816	4,221,383	4,106,687

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 2016 is 2.60% (30 June 2015: 2.55%).

When applicable, Short-term deposits are held with ANZ Bank New Zealand Limited for periods of up to 90 days. There are no deposits held at 30 June 2016 (30 June 2015: Nil).

In June 2015 Pohutukawa Private Equity II Limited call monies received by Computershare were held in the Registry's trust bank account on behalf of the Company.

Financial Information

Notes to the consolidated interim financial statements

6. Earnout Provision

	Unaudited Jun 2016	Unaudited Jun 2015	Audited Dec 2015
Opening provision	8,606,764	-	-
Change in provision due to change in Net Assets	562,057	-	8,606,764
Distribution of earnout during the period	(2,771,064)	-	-
Closing Earnout Provision	6,397,757	-	8,606,764

In accordance with clause 11 of the Prospectus the earnout holder is entitled to earnout calculated at 20% of net returns to Pohutukawa Private Equity II Limited provided investors have received back their original investment together with further distributions producing a pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 30 June 2016 the estimated earnout is calculated at \$6,397,757, however this calculation is based on unrealised portfolio company fair value valuations of \$24,792,044 and loans receivable of \$1,325,560 being fully recovered. Movements in the provision are recognised in profit or loss.

7. Share Capital

Distributions of \$8,309,236 (\$0.101 per share) were declared during the period by companies with the Group (2015: \$1,375,919, \$0.017 per share). All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to \$0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

8. Related parties

Identity of related parties

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

Craigs Investment Partners Limited and Direct Capital IV Management Limited own 50% each of Pohutukawa II Management Limited, the Manager of Pohutukawa Private Equity II Limited. Craigs Investment Partners Limited and Direct Capital IV Investment Partners LP are partners in Pohutukawa II Investment Holdings LP which is the holder of the ordinary shares in the Investment Companies. Certain directors of the Company are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital IV Management Limited and Craigs Investment Partners Limited.

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



Financial Information

Notes to the consolidated interim financial statements

8. Related parties (continued)

Transactions with related parties

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

- Management fees charged by Pohutukawa II Management Limited for the reporting period totalled \$490,131 (30 June 2015: \$531,015). At the end of the reporting period no management fees or interest were owing to Pohutukawa II Management Limited (30 June 2015: \$Nil).
- Craigs Investment Partners Limited paid certain expenses and collects certain receipts of Pohutukawa Private Equity II Limited. As at 30 June 2016, \$230 remained owing from Craigs Investment Partners Limited (30 June 2015: \$7,055 owing to Craigs Investment Partners Limited).
- Call deposits have been invested in ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
At 30 June 2016 the balance held was \$3,421,009 (30 June 2015: \$382,129).
- Direct Capital IV Management Limited paid certain expenses on behalf of Pohutukawa Private Equity II Limited. As at 30 June 2016, no expenses were owing to Direct Capital IV Management Limited (30 June 2015: \$Nil).
- Pohutukawa II Investment Holdings LP received an earnout distribution of \$2,771,064 during the period.

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 2016	Unaudited Jun 2015	Audited Dec 2015
Directors fees (total remuneration)	42,500	42,500	85,000

The balance owing to directors at 30 June 2016 is \$21,250 (30 June 2015: \$21,250).

9. Subsequent events

There were no material subsequent events for the Group.

Auditor's Review Report



To the shareholders of Pohutukawa Private Equity II Limited

We have completed a review of the interim financial statements of Pohutukawa Private Equity II Limited on pages 12 to 22 which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 6 months ended on that date, and a summary of significant accounting policies and other explanatory information.

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

Directors' responsibilities

The directors of Pohutukawa Private Equity II Limited are responsible for the preparation and fair presentation of interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting. As the auditor of Pohutukawa Private Equity II Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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

In addition to our capacity as auditors our firm has also provided other services to the Group in relation to other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with Pohutukawa Private Equity II Limited 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 Group. The firm has no other relationship with, or interest in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of Pohutukawa Private Equity II Limited do not present fairly, in all material respects, the financial position of the Group as at 30 June 2016, and of its financial performance and its cash flows for the 6 months ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

A handwritten signature of the KPMG firm, written in blue ink. The signature is stylized and appears to be 'KPMG'.

7 September 2016
Tauranga



Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald
Maurice Prendergast
Neil Craig
Mike Caird

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

OFFICES OF POHUTUKAWA II

Pohutukawa Private Equity II Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3141
Phone: (07) 927 7927
Email: enquiries@pohutukawafund.co.nz

MANAGER

Pohutukawa II Management Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3141
Phone: (07) 927 7927
Email: enquiries@pohutukawafund.co.nz

INVESTMENT MANAGER

Direct Capital IV Management Limited
Level 6, 2 Kitchener Street
P O Box 6466, Wellesley Street
Auckland 1010
Phone: (09) 307 2562

AUDITORS

KPMG
247 Cameron Road
Tauranga 3140
Phone: (07) 578 5179

SHARE REGISTRY

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

SOLICITORS

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

