

Pohutukawa



**POHUTUKAWA PRIVATE EQUITY II
LIMITED**

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2021**

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April 2022

Dear Shareholder

**POHUTUKAWA PRIVATE EQUITY II LIMITED
SHAREHOLDER REPORT 31 DECEMBER 2021**

We are pleased to provide Shareholders with the annual report for the year to 31 December 2021. The report includes the audited financial statements for the financial year ended 31 December 2021. As we only have two remaining portfolio investments this annual report is abridged and is only available electronically.

Pohutukawa II Fund

The Pohutukawa II offer raised \$82.5m of Committed Capital in February 2009. Pohutukawa II co-invests with the Direct Capital IV which together total \$325 million. Pohutukawa II has called \$51.15m or 62 cps.

Portfolio Company Investments

Pohutukawa II has two remaining investments at 31 December 2021.

- *Bayley Corporation*

In March 2020 Pohutukawa II realised the majority of its shareholding (86%) to parties associated with Bayleys including existing and new executive shareholders and franchise owners. Direct Capital IV and Pohutukawa II currently retain a combined 4.7% shareholding in Bayleys.

The Investment Manager expects to realise the residual investment in Bayley's in the near term.

- *PF Olsen*

Strong trading in both harvest management and forest management in the first half of the year led to outperformance to expectations, however this was offset in the second half of the year by the impact of the Covid lockdowns in August and lower harvesting activity due to a fall in log prices. This resulted in PF Olsen meeting budget for 2021.

The Investment Manager is assisting the company with a capital raising initiative currently underway which may result in the realisation of the PF Olsen investment in the near term.

Distributions & Returns to Shareholders

Pohutukawa II has to date made gross distributions totalling \$1.12 per share. Your shares are paid to 62 cps. The Fund's last distribution was for \$1.24m (1.5 cps) paid on 19 May 2021. The total value to paid in capital (TVPI) at 31 December 2021 was 1.92. The current net internal rate of return (IRR) after allowing for earnout is 15.6% per annum.

Portfolio Company Investment Revaluations

The Manager re-values the portfolio company investments each quarter using the International Private Equity & Venture Capital valuation guidelines. The portfolio fair value at 31 December 2021 was \$7.2m (2020: \$5.4m).

Financial Position 31 December 2021

Pohutukawa II had 82.5m stapled securities on issue, paid to 62cps. Shareholder' funds were \$5.9m, equivalent to a net asset backing of 7.2cps. The profit for the year was \$1.76m. Administration expenses were \$286,034, (2020: \$540,728).

From 1 July 2020 the investment manager agreed to a 50% reduction in the management fees charged recognising the reduced portfolio.

Annual Shareholders Meeting

The Annual Shareholders Meeting details for Pohutukawa Private Equity are as follows:

- **Date: Tuesday, 24 May 2022**
- **Time: 2.30pm**
- **Place: Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland and via video conference. Please see details in the Notice of Annual Shareholders Meeting**
- **RSVP by 13 May 2022. Contact Peter Lalor on 07 927 7927 or enquiries@pohutukawafund.co.nz**

As with previous years the ASM will be held in conjunction with the Pohutukawa V & VI ASM.

We look forward to seeing you at the meetings.

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.

We will keep you informed on portfolio developments via the Pohutukawa website www.pohutukawafund.co.nz.

Yours sincerely

POHUTUKAWA PRIVATE EQUITY II LIMITED



John McDonald
Chair

MANAGER'S REPORT ON PORTFOLIO COMPANIES

The Manager is pleased to report on the remaining two portfolio companies for the year ended 31 December 2021.

Despite two portfolio companies remaining, the Investment Manager is pleased with the performance of the portfolio during the disrupted 2021 calendar year. A pleasing level of imputed dividends were generated over the year and the unrealised value increased year on year.

Bayley Corporation

In March 2020, Pohutukawa II realised the majority of its shareholding (86%) to parties associated with Bayleys. \$5m of the total capital proceeds was advanced back to Bayleys as an interest-bearing loan. This loan was fully repaid during the year ended 31 December 2021. Pohutukawa II's pro-rata portion of this loan was \$1.19m.

Direct Capital IV and Pohutukawa II are working to realise the remaining 4.7% shareholding in the near term.

PF Olsen

Strong trading in both harvest management and forest management in the first half of the year led to outperformance to expectations, however this was offset in the second half of the year by the impact of August Covid lockdowns and lower harvesting activity due to a fall in log prices. This resulted in PF Olsen meeting its performance expectations for 2021.

Management expect log prices will recover into 2022 as reducing supply depletes inventory levels in key export countries such as China.

Direct Capital IV and Pohutukawa II anticipate realising the PF Olsen investment in the coming months.

DIRECTORS' REPORT

For the year ended 31 December 2021

The following table shows Directors holding office during the year, and the amount of director fees paid during the year.

Director	Remuneration Rate \$	Date of appointment
J McDonald	30,000	4-Nov-08
N J Craig	Nil	19-Nov-08

Entries recorded in the interests register

The entries shown in the table below were recorded in the interests register of the company at year end.

Directors' shareholdings and dealings in Pohutukawa II at 31 December 2021


The directors of Pohutukawa II also have co-investment rights in all Pohutukawa II investments. Holdings (including relevant interests) are as follows:

Pohutukawa II Director Investment Disclosure 31 December 2021 (Directors holding office at 31 December 2021)		
Investment Holding	J McDonald	N Craig
	No. Securities	No. Securities
Pohutukawa II	100,000	110,000
Bayley Corporation Ltd	705	438
PF Olsen Group Limited	2,196	977



22 March 2022

Director
Date



22 March 2022

Director
Date

Statement of comprehensive income

For the year ended 31 December 2021			
	<i>Note</i>	2021	2020
Interest income		1,345	19,740
Dividend income		680,347	259,864
Unrealised change in fair value of investments		1,810,788	638,011
Gain on realisation of investments	8(d)	-	71,201
Movement in earnout provision	14	(443,692)	(87,615)
Administrative expenses	5	(286,034)	(540,728)
Profit before tax		1,762,754	360,473
Income tax expense	6	-	-
Profit for the year		1,762,754	360,473
Other comprehensive income for the year		-	-
Total comprehensive income for the year		1,762,754	360,473
Attributable to:			
Equity holders of the parent		(678,677)	(466,788)
Equity holders of the investment companies	3a(iv)	2,441,431	827,261
Profit and total comprehensive income for the year attributable to the equity holders of stapled securities		1,762,754	360,473

Statement of changes in equity

For the year ended 31 December 2021						
<i>Note</i>	Attributable to equity holders of the parent			Attributable to equity holders of the investment companies		Total equity
	Share capital	Retained losses	Total	of the investment companies		
Balance at 1 January 2021	20,494,589	(16,203,669)	4,290,920	948,683		5,239,603
Total comprehensive income for the year	-	(678,677)	(678,677)	2,441,431		1,762,754
Distributions to equity holders	12	-	-	(1,094,909)		(1,094,909)
Balance at 31 December 2021	20,494,589	(16,882,346)	3,612,243	2,295,205		5,907,448
Balance at 1 January 2020	25,321,331	(15,736,881)	9,584,450	806,045		10,390,495
Total comprehensive income for the year	-	(466,788)	(466,788)	827,261		360,473
Redemption of share capital	12	(4,826,742)	(4,826,742)	-		(4,826,742)
Distributions to equity holders	12	-	-	(684,623)		(684,623)
Balance at 31 December 2020	20,494,589	(16,203,669)	4,290,920	948,683		5,239,603

Statement of financial position

As at 31 December 2021

	Note	2021	2020
Assets			
Cash and cash equivalents	11	175,303	53,407
Receivables and prepayments	9	3,375	19,473
Investments – equity securities	8(c)	7,233,132	-
Loans and receivables	7	-	1,191,555
Total current assets		7,411,810	1,264,435
Investments – equity securities	8(c)	-	5,422,344
Total non-current assets		-	5,422,344
Total assets		7,411,810	6,686,779
Equity			
Issued capital	12	20,494,589	20,494,589
Retained losses		(16,882,346)	(16,203,669)
Total equity attributable to equity holders of the parent		3,612,243	4,290,920
Equity attributable to equity holders of the investment companies	3a(iv)	2,295,205	948,683
Total equity attributable to equity holders of stapled securities		5,907,448	5,239,603
Liabilities			
Trade and other payables	13	27,452	140,231
Earnout provision	14	1,476,910	278,313
Total current liabilities		1,504,362	418,544
Earnout provision	14	-	1,028,632
Total non-current liabilities		-	1,028,632
Total liabilities		1,504,362	1,447,176
Total equity and liabilities		7,411,810	6,686,779

For and on behalf of the Board



Director

22 March 2022

Date



Director

22 March 2022

Date

Statement of cash flows

For the year ended 31 December 2021

	Note	2021	2020
Cash flows from/(to) operating activities			
Dividends received		680,347	259,864
Interest received		13,358	7,726
Interest paid		-	(29)
Cash paid to suppliers		(394,728)	(458,701)
Distribution of earnout	14	(273,727)	(1,377,842)
Net cash from/(to) operating activities	15	<u>25,250</u>	<u>(1,568,982)</u>
Cash flows from investing activities			
Realisations from investments		-	6,889,803
Repayment of loans receivable		1,191,555	-
Net cash from investing activities		<u>1,191,555</u>	<u>6,889,803</u>
Cash flows from/(to) financing activities			
Redemption of preference shares	12	-	(4,826,742)
Distributions to equity holders	12	(1,094,909)	(684,623)
Net cash from/(to) financing activities		<u>(1,094,909)</u>	<u>(5,511,365)</u>
Net movement in cash and cash equivalents		121,896	(190,544)
Cash and cash equivalents at 1 January		53,407	243,951
Cash and cash equivalents at 31 December	11	<u>175,303</u>	<u>53,407</u>

Notes to the consolidated financial statements

1. Reporting entity

Pohutukawa Private Equity II Limited (the “Company”) is a company incorporated and domiciled in New Zealand. Pohutukawa Private Equity II Limited and the 6 (2020: 11) Investment Companies, refer Note 19, are registered under the *Companies Act 1993* and are reporting entities for the purposes of the *Financial Reporting Act 2013* and the *Financial Markets Conduct Act 2013*.

The consolidated financial statements of the Group for the year ended 31 December 2021 comprise the Company and 6 (2020: 11) Investment Companies (together referred to as the “Group”).

Pohutukawa Private Equity II Limited is primarily involved in private equity investment made through the Investment Companies.

The financial statements were approved by the Directors on 22 March 2022.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). The comply with New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”) and other applicable Financial Reporting Standards, as appropriate for Tier 1 for-profit oriented entities. The financial statements also comply with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

(c) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company’s functional currency and rounded to the nearest dollar.

(d) Use of estimates and judgements

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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 8 – Investments – equity securities
- Note 14 – Earnout provision
- Note 16 – Financial risk management

Notes to the consolidated financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently by all Group entities to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Stapled securities

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 6 (2020: 11) 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 6 (2020: 11) companies combining under the stapling arrangement are designated as the Investment Companies, refer Note 19, which invest in Portfolio Companies, refer Note 8.

The Group and Investment Companies are deemed to be Investment Entities as they invest shareholder's funds solely for returns on investments from capital appreciation, interest and dividends.

(ii) Associates

Investments in equity securities, which would normally be classified as investments in unlisted associates, are carried at fair value in the consolidated financial statements and are not equity accounted (see accounting policy 3(b)). This is due to the fact that the parent and group are private equity investors.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(iv) Equity attributable to equity holders of the investment companies

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

(b) Investments in equity securities

The Group's investments in equity securities are financial assets designated at fair value through profit or loss, as they are managed by the Group on a fair value basis. They are presented as current assets in the statement of financial position and are stated at fair value, with any resultant change in fair value recognised in profit or loss.

Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Groups investment strategy. Regular purchases and sales of investments are recognised on a trade-date basis, being the date on which the Group commits to purchase or sell the asset.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(c) Loans receivable

Loans receivable are recognised initially at fair value plus any directly attributable transaction costs (if any). Subsequent to initial recognition they are stated at amortised cost less impairment losses, if any (see accounting policy 3(f)).

(d) Finance expense - interest

Finance expense comprises interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and are recognised and measured at cost. Cash excludes short-term deposits that are not used as part of the Group's day-to-day cash management.

(f) Impairment

The carrying amounts of the Group's assets, other than investments in unlisted equity securities (see accounting policy 3(b)), and deferred tax assets (see accounting policy 3(j)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on the present value of estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed in profit or loss if there has been a change in the estimates used to determine the recoverable amount.

(g) Share capital

(i) Ordinary share capital

Share capital is recognised as paid in capital when a call has been made to shareholders and is due. Calls are made in tranches of \$0.05 per share.

(ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity.

(iv) Dividends

All dividends are recognised as a liability in the period in which they are declared.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(h) Trade and other payables

Trade and other payables are stated at amortised cost.

(i) Revenue

(i) Equity investments

Movements in the fair value of the Group's investments in equity instruments are recognised in profit or loss. Dividend income is recognised in profit or loss on the date the entity's right to receive payments is established.

(ii) Interest income

Interest income is recognised as revenue in profit or loss as it accrues, using the effective interest rate method.

(j) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

4. Determination of fair values

Investments in unlisted equity securities are valued at the Investment Managers' valuation in the year of acquisition and subsequently by annual valuations carried out in accordance with the valuation principles set out by The International Private Equity and Venture Capital Valuation Guidelines (IPEV) which also ensures compliance with NZ IFRS 13 – Fair Value Measurement. Valuations are performed by Direct Capital IV Management Limited (see Note 8). These valuations require the use of significant judgement by the directors regarding estimated future earnings of the investments, and the use of appropriate earnings multipliers in determining the fair value of investments when no other observable inputs are available to the directors.

Notes to the consolidated financial statements

5. Administrative expenses

	Note	2021	2020
Management fees	17(b)	227,980	386,779
Directors' fees	17(c)	30,000	85,000
Other administrative expenses		28,054	68,949
		<u>286,034</u>	<u>540,728</u>

The following items of expenditure are included in administrative expenses:

Auditor's remuneration to KPMG comprises:

Audit of financial statements	18,600	17,775
Review of interim financial statements	5,250	5,250
	<u>23,850</u>	<u>23,025</u>

6. Income tax expense

	Note	2021	2020
Income tax expense in statement of comprehensive income		-	-

Reconciliation of effective tax rate

Profit/(loss) before tax		1,762,754	360,473
Income tax expense at 28% tax rate		493,571	100,932
Non-deductible expenses			24,532
Non-assessable income		(430,377)	(198,579)
Imputation credits received		(190,497)	(72,762)
Tax losses not recognised	10	127,303	145,877
Total income tax expense in statement of comprehensive income		<u>-</u>	<u>-</u>

Imputation credits

Imputation credits available to shareholders of the parent company:			
Through investment companies		95,088	13,064
		<u>95,088</u>	<u>13,064</u>

Notes to the consolidated financial statements

7. Loans to portfolio companies

	2021	2020
Bayley Corporation Limited	-	1,191,555
	<u>-</u>	<u>1,191,555</u>

This unsecured loan arose from the partial realisation of the investment during the year end 31 December 2020. This loan has been fully repaid during the year ended 31 December 2021.

8. Investments – equity securities

Non-current investments

The Group has two investments in unlisted equity securities (2020: two). The performance of these securities is actively monitored, and group policy is to carry these investments initially at cost with subsequent movements in fair value recognised through profit or loss. Where there is no quoted market price for these securities, valuation techniques must be utilised to determine fair value. The valuations are carried out by Direct Capital IV Management Limited (see Note 16) using IPEV valuation guidelines which also ensures compliance with NZ IFRS 13.

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

The following table lists the investments held at the end of the reporting period and the underlying cost of the initial acquisition. The difference between the cost and the carrying value in the statement of financial position is shown as a fair value movement through profit or loss.

2021			
Entity name	Activities	Acquisition date	Cost
Bayley Corporation Limited	Real Estate Services	Jun 2010	999,017
PF Olsen Group Limited	Forestry management	Sept 2011	2,580,878
			<u>3,579,895</u>

2020			
Entity name	Activities	Acquisition date	Cost
Bayley Corporation Limited	Real Estate Services	Jun 2010	999,017
PF Olsen Group Limited	Forestry management	Sept 2011	2,580,878
			<u>3,579,895</u>

Notes to the consolidated financial statements

8. Investments – equity securities (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).

31 December 2021	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	7,233,132	7,233,132
31 December 2020	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	5,422,344	5,422,344

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	2021	2020
Opening balance	5,422,344	12,794,490
Total gains:		
In profit or loss (realised and unrealised)	1,810,788	709,212
Investments at cost during the year	-	-
Capital returns	-	(8,081,358)
Closing balance	7,233,132	5,422,344

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

Investments	2021	2020
Total gains/(losses) included in profit or loss for the year	1,810,788	709,212
Total gains/(losses) for the year included in profit or loss for assets held at the end of the reporting period	1,810,788	638,011

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

(b) Sensitivity Analysis

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by \$209,187 (2020: \$150,836). A movement in the downward adjustment factor of 5% changes the value of the investments by \$403,669 (2020: \$285,201). A movement in the maintainable earnings of 5% changes the value of the investments by \$318,678 (2020: \$228,161).

(c) Fair value of investments

The fair value of the total investment portfolio as at 31 December 2021 was \$7,233,132 (2020: \$5,422,344).

Notes to the consolidated financial statements

8. Investments – equity securities (continued)

(d) Gain on realisation of investments

There were no proceeds received for the realisation of investments in the year ended 31 December 2021 (2020: gain on disposal of Cavalier Wool Holdings Limited \$8,477, gain on sale of George H Investments Limited \$62,725).

9. Receivables and prepayments

	2021	2020
GST receivable	-	3,338
Prepayments	3,375	4,121
Interest receivable	-	12,014
	<u>3,375</u>	<u>19,473</u>

As at 31 December 2021, no receivables are considered past due (2020: \$Nil).

10. Deferred tax assets and liabilities

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Note	2021	2020
Opening balance 1 January		4,367,493	4,219,531
Tax losses not recognised	6	127,303	145,877
Prior period adjustments		-	2,085
Tax losses foregone		(313,366)	-
Closing balance 31 December		<u>4,181,430</u>	<u>4,367,493</u>

Due to the nature of the stapled securities, and the fact that ordinary shares in the Investment Companies are owned by Pohutukawa II Investment Holdings LP, there is no ability to offset losses between the Parent (Pohutukawa Private Equity II Limited) and the Investment Companies.

Tax losses do not expire, subject to shareholder continuity rules being met. Deferred tax assets have not been recognised in respect of these items because it is not certain that future taxable profit will be available against which the Group can utilise the benefit.

Investment Companies taxation losses cannot be used by the parent.

11. Cash and cash equivalents

	2021	2020
Call deposits	175,303	53,407
Cash and cash equivalents in the statement of cash flows	<u>175,303</u>	<u>53,407</u>

Call deposits and short-term deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate for 2021 on call deposits was 0.46% (2020: 0.90%).

Notes to the consolidated financial statements

12. Share capital

Share capital

<i>In millions of shares</i>	Investment Co's Preference shares		PPE II Ordinary shares		PPE II Preference shares	
	2021	2020	2021	2020	2021	2020
On issue at 1 January	907	990	82.5	82.5	5,185	5,668
Cancellation of shares	(412)	(83)	-	-	-	-
Redemption of shares	-	-	-	-	-	(483)
On issue at 31 December	495	907	82.5	82.5	5,185	5,185

Preference shares are only redeemable at the option of the issuer.

At 31 December 2021, the share capital of the Company comprised 82,500,000 ordinary shares (2020: 82,500,000), and 5,185,267,900 preference shares (2020: 5,185,267,900). In addition, there are 495,000,000 (2020: 907,500,000) preference shares in the 6 (2020: 11) Investment Companies (82,500,000 in each).

Ordinary shares and Investment Company preference shares have been allotted at nil value. The Pohutukawa Private Equity II Limited shares (stapled shares) have been issued at \$1.00 per share, paid to \$0.62. During the year there were no calls (2020: \$Nil).

The prospectus states that any residual balance up to the \$1.00 per share price will become payable in full on the fifth anniversary of allotment, however on 18 December 2014 the directors notified shareholders that the maximum amount to be called is now capped at \$0.80.

Following the \$0.80 cap announcement in December 2014, shareholders have a commitment to fund a further \$0.18 per share totalling \$14.85 million (2020: \$0.18 per share totalling \$14.85 million) in subsequent calls, subject to Board approval. Calls will not be made unless the proceeds of all previous calls have been invested or committed in full.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Distributions of \$1,094,909 (\$0.013 per share) were declared during the year by companies within the Group (2020: \$684,623, \$0.008 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.

Pohutukawa II Investment Holdings LP is a related party which holds 100 ordinary shares in each of the Investment Companies.

Notes to the consolidated financial statements

13. Trade and other payables

	2021	2020
Audit fees payable	17,775	16,500
Trade payables and accrued expenses	9,677	123,731
	<u>27,452</u>	<u>140,231</u>

14. Earnout Provision

	2021	2020
Opening provision	1,306,945	2,597,172
Movements during the year	443,692	87,615
Distribution of earnout during the period	(273,727)	(1,377,842)
Closing earnout provision	<u>1,476,910</u>	<u>1,306,945</u>

In accordance with clause 10 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 31 December 2021 the estimated earnout provision is calculated at \$1,476,910 (2020: \$1,306,945). This calculation is based on unrealised portfolio company fair value valuations of \$7,233,132 (2020: \$5,422,344 and a loan receivable of \$1,191,555) being fully recovered. During the year ended 31 December 2021 \$273,727 (2020: \$1,377,842) of earnout has been distributed to the Earnout holder.

15. Reconciliation of profit after taxation to the net cash flow from operating activities

	Note	2021	2020
Profit/(loss) for the year		1,762,754	360,473
Adjustments for:			
Change in fair value of investments		(1,810,788)	(638,011)
Net gain on realisation of investment		-	(71,201)
Change in trade and other receivables		16,098	(10,591)
Change in trade payables and accruals		(112,779)	80,575
Change in earnout provision	14	169,965	(1,290,227)
Net cash flow to/(from) operating activities		<u>25,250</u>	<u>(1,568,982)</u>

Notes to the consolidated financial statements

16. Financial risk management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- Equity price risk
- Credit risk
- Interest rate risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Equity price risk

The Group has policies in place to mitigate equity price risk, particularly in its investments. This includes detailed analysis of prospective equity investments. Investments in unlisted equity securities are, by their nature, less liquid and subject to greater equity price risk than listed securities.

Credit risk

Exposure to credit risk arises in the normal course of the Group's business from its loans and receivables and bank balances. The Group does not require collateral in respect of financial assets. At the end of the reporting period there were no significant concentrations of credit risk.

The Group invests its surplus funds in short-term deposits with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited (refer Note 17). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position.

Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business from bank accounts and short-term deposits. Management invests excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required.

Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances and short-term deposits. At the end of the reporting period the effective interest rates for bank balances are 0.85% (2020: 0.25%) and there are no short-term deposits (2020: none). Bank balances reprice daily.

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations to settle its financial liabilities when due. The Group evaluates its liquidity requirements on an ongoing basis and maintains sufficient cash to meet all obligations. Investments in unlisted equity securities are, by their nature, less liquid.

Expected credit loss

A provision for expected credit losses is established when the assessment under NZ IFRS 9 deems a provision is required. The Group has determined there are no receivables subject to expected credit losses (ECLs). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows the Group expects to receive, discounted using the effective interest rate.

Notes to the consolidated financial statements

16. Financial risk management (continued)

Interest rate risk – repricing analysis

	Note	Total	Non interest bearing	6 months or less
2021				
Cash and cash equivalents	11	175,303	-	175,303
Total		175,303	-	175,303
2020				
Cash and cash equivalents	11	53,407	-	53,407
Loans and receivables		1,191,555	-	1,191,555
Total		1,244,962	-	1,244,962

Sensitivity analysis

The sensitivity of interest rate movements has an immaterial impact on the financial statements of the Group.

Capital management

The Group's capital includes share capital and retained earnings.

The Group's policy is to maintain its capital structure in terms of the prospectus and repay capital as investments are realised. As disclosed in Note 12, \$0.62 per share has been paid on the capped \$0.80 per share (2020: \$0.80 per share). The remaining \$0.18 (2020: \$0.18) will be called as required in accordance with the terms of the prospectus (See Note 12 on call extension).

The Group is not subject to any externally imposed capital requirements.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Group's management of capital during the year.

Notes to the consolidated financial statements

16. Financial risk management (continued)

Classification and fair values

	Note	Fair value through profit of loss	Amortised cost	Total carrying amount	Fair value
2021					
Assets					
Cash and cash equivalents	11	-	175,303	175,303	175,303
Investments – unlisted equity securities	8(c)	7,233,132	-	7,233,132	7,233,132
Total assets		7,233,132	175,303	7,408,435	7,408,435
Liabilities					
Trade and other payables	13	-	27,452	27,452	27,452
Total liabilities		-	27,452	27,452	27,452

	Note	Fair value through profit of loss	Amortised cost	Total carrying amount	Fair value
2020					
Assets					
Cash and cash equivalents	11	-	53,407	53,407	53,407
Receivables	9	-	1,206,907	1,206,907	1,206,907
Investments – unlisted equity securities	8(c)	5,422,344	-	5,422,344	5,422,344
Total assets		5,422,344	1,260,314	6,682,658	6,682,658
Liabilities					
Trade and other payables	13	-	140,231	140,231	140,231
Total liabilities		-	140,231	140,231	140,231

Notes to the consolidated financial statements

17. Related parties

a) Identity of related parties

The Company has a related party relationship with its Investment Companies (see Note 19).

Craigs Investment Partners Limited, as the administration manager, and Direct Capital IV Management Limited, as the investment manager, 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 limited partners in Pohutukawa II Investment Holdings LP which is the holder of the ordinary shares in the Investment Companies. Certain directors of the Company and the Investment Companies are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital IV Management Limited.

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

b) Transactions with related parties

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

- Management fees paid to Pohutukawa II Management Limited totalled \$227,980 (2020: \$386,779).
- Call deposits of \$175,303 (2020: \$53,407) and short-term deposits of \$Nil (2020: \$nil) are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Earnout of \$273,727 (2020: \$1,377,842) was distributed to Pohutukawa II Investment Holdings LP.

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.

c) Transactions with key management personnel

	2021	2020
Directors fees (total remuneration)	30,000	85,000

The balance owing to key management personnel at 31 December 2021 is \$7,500 (2020: \$59,063).

18. Subsequent events

There were no material subsequent events for the Group. The financial statements have been prepared on a going concern basis. Should both remaining investments be fully realised in the next twelve months that it is the director's intention to wind up the fund and make the final distributions to investors. At the time of preparing these financial statements, the fund has not entered into unconditional sale agreements and the timing of any realisation, and the resulting windup of the fund is uncertain.

Notes to the consolidated financial statements

19. Group entities

Investment Companies

	Country of incorporation	Ownership interest*	
		2021	2020
Pohutukawa Alpha Limited (“Alpha”)	New Zealand	0%	0%
Pohutukawa Beta Limited (“Beta”)	New Zealand	0%	0%
Pohutukawa Gamma Limited (“Gamma”)	New Zealand	0%	0%
Pohutukawa Delta Limited (“Delta”)	New Zealand	0%	0%
Pohutukawa Epsilon Limited (“Epsilon”)	New Zealand	0%	0%
Pohutukawa Zeta Limited (“Zeta”)	New Zealand	0%	0%
Pohutukawa Eta Limited (“Eta”)	New Zealand	-%	0%
Pohutukawa Theta Limited (“Theta”)	New Zealand	-%	0%
Pohutukawa Iota Limited (“Iota”)	New Zealand	-%	0%
Pohutukawa Kappa Limited (“Kappa”)	New Zealand	-%	0%
Pohutukawa Lambda Limited (“Lambda”)	New Zealand	-%	0%
Pohutukawa Mu Limited (“Mu”)	New Zealand	-%	0%

*As stated in Note 3(a)(i), the preference shares in the Investment Companies are owned by the individual shareholders of Pohutukawa Private Equity II Limited but are consolidated into the Group as they are stapled securities.

Independent Auditor's Report

To the shareholders of Pohutukawa Private Equity II Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Pohutukawa Private Equity II Limited (the 'Company') and its subsidiaries (together the 'Group') on pages 5 to 22:

- Present fairly in all material respects the Group's financial position as at 31 December 2021 and its financial performance and cash flows for the year ended on that date; and
- Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- The consolidated statement of financial position as at 31 December 2021;
- The consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to review of annual tax returns. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.



Material uncertainty related to going concern

We draw attention to note 18 in the financial statements which indicates that the financial statements have been prepared on a going concern basis. As stated in note 18, the fund has entered into a process of active sales negotiations for the remaining two investments. Should these investments be sold in the next 12 months then it is the director's intention to wind up the fund and make the final distributions to investors. Sales negotiations are currently underway however, the fund has yet to enter into an unconditional sale agreement and the timing of any sale and the resulting windup of the fund is uncertain. Therefore, there is a material uncertainty related to these events or conditions that may cast significant doubt on the fund continuing as a going concern. Our opinion is not modified in respect of this matter.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter

How the matter was addressed in our audit

Valuation of Investments

Refer to Note 8 to the Financial Report. The Group holds private equity investments of \$7.2m. This is a key audit matter due to the following:

- The size of investments in relation to the total assets of the Group, and as a result, the significant level of auditor attention consumed in substantiating this balance; and
- The valuation of investments in equity securities of portfolio companies is judgmental in nature and therefore susceptible to material error.

Our audit procedures included the following:

- In conjunction with our valuation specialists, we performed an assessment of whether the valuation methodologies used to fair value each investment are appropriate;
- Agreed key inputs used in the Group models for each portfolio company to support external documentation;
- Evaluated the appropriateness of key assumptions used in valuation models, including maintainable earnings, earnings multiples and marketability discounts; and
- Evaluated the appropriateness of the classification of investments within the statement of financial position.

Based on the above procedures there were no matters to report.



Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information includes the Report to Shareholders, Manager's Report on Portfolio Companies, and the Directors' Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.



Use of this independent auditor's report

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



Responsibilities of the Directors for the consolidated financial statements

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

- The preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards);
- Implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- To obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- To issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Trevor Newland.

For and on behalf of

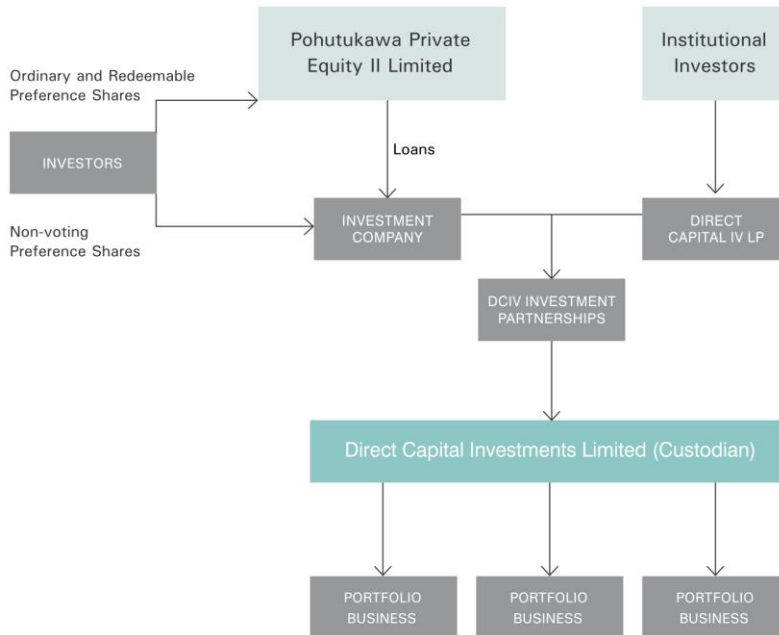


KPMG
Tauranga
22 March 2022

CORPORATE GOVERNANCE & STRUCTURE

Pohutukawa Private Equity II Limited (Pohutukawa II) is the Fund. Investors hold both ordinary and redeemable preference shares in Pohutukawa II. Investors also hold redeemable preference shares in each of the special purpose vehicles (Investment Companies), which invest in the portfolio companies. These are called stapled securities. There are 82.5 million ordinary shares on issue. The number of ordinary shares on issue remains constant while the ratio of preference shares reduces as investments are realised and preference shares are redeemed.

Pohutukawa II co-invests with Direct Capital IV in each investment in proportion to the level of committed capital of each of Pohutukawa II and Direct Capital IV. The structure is shown below:



Ordinary shares held by investors in Pohutukawa II confer normal voting rights on investors. The preference shares held by investors in both Pohutukawa II and the Investment Companies confer no voting rights. The Manager (Direct Capital IV Management and Craigs Investment Partners), through Pohutukawa II Investment Holdings Limited Partnership holds all the ordinary voting shares in each of the Investment Companies and exercises these rights in accordance with the Pohutukawa II investment policy and investment criteria.

Pohutukawa II has a separate Board to ensure best-practice corporate governance and to safeguard shareholders' interests. The Board has two independent directors.

Craigs Investment Partners is entitled to appoint up to 50% of the directors of Pohutukawa II. All other directors of Pohutukawa II can be appointed by directors or removed by ordinary resolution of the investors. The Board sets the investment policy and criteria, and reviews the performance of the Manager from time to time and reports to the shareholders on the review. It reviews the capital adequacy of Pohutukawa II and is responsible for continuous disclosure and shareholder meetings of Pohutukawa II. The Directors of each Investment Company can be appointed or removed only by the limited partners.

The Manager is a 50/50 joint venture between Direct Capital IV Management Limited and Craigs Investment Partners Limited, both of whom provide services to the Manager on a contract basis. Direct Capital provides investment management services. Craigs Investment Partners provides fundraising, cash management, treasury management, administration, investor communication, and investment sourcing and divestment assistance. The Investment Committee of the Manager is responsible for all investment decisions.

THE POHUTUKAWA II BOARD

The Board of Pohutukawa Private Equity II Limited (whose profiles follow) comprises two directors, one of whom is Chairman. The Board is responsible for appointing, and then monitoring the performance of the Manager, reviewing Pohutukawa's investment policy and criteria, and managing conflicts of interest between the Manager and the Pohutukawa fund.

JOHN MCDONALD
(Chairman and Independent Director)



John is a Company director and trustee with more than 30 year's experience in executive and management positions with the former Fletcher Challenge group of companies through to his retirement in 2001. John has considerable international experience in management, finance, corporate governance best practice and as a director and audit committee member of private and publicly listed companies John is currently a director of Oriens Capital GP Ltd and Chairman of Pohutukawa Private Equity II Ltd. John was previously a director of Air New Zealand for 9 years and Horizon Energy Distribution Ltd.

NEIL CRAIG
(Non-Executive Director)



Neil is the founding principal of Craigs Investment Partners, a New Zealand Exchange Participant Firm, a company he has been instrumental in building from a small regionally based sharebroking business in Whakatane to its current position as a leading New Zealand investment advisory firm. Craigs Investment Partners has approximately 660 staff across 19 branches throughout New Zealand. Neil has a broad experience in private equity transactions, stock exchange listings, capital raisings and corporate activity for a wide range of companies. In a personal capacity Neil has been an active private equity investor for many years.

Neil is currently a director of Pohutukawa Private Equity II Ltd, Pohutukawa Private Equity V Ltd, Pohutukawa Private Equity VI Ltd, Pilot Bay Funds Management Ltd, and a director of the Manager of: Kowhai Private Equity No.1 and IV LP; Karaka Private Equity No.1 LP; Matai Private Equity No.1 LP and director of a number of privately held companies.

COMMITTEES

The Board has one committee, an Audit Committee, comprising all board members. The Audit Committee meets as required. The Audit Committee has full powers to require the Manager to provide any information or documents relating to the Fund, which it requires to enable it to meet the obligations of an Audit Committee; The Directors of Pohutukawa II and Pohutukawa II Management must respond to any recommendations made to their Boards from the Audit Committee.

There is no remuneration committee because Pohutukawa II and the Manager have no employees. The Chairman and Directors of Pohutukawa II receive director's fees from Pohutukawa II. The Manager is entitled to remuneration in respect of management of the funds. Information about the remuneration received by the Manager for this reporting period can be found in the financial statements set out in this report. The Manager does not pay director's fees.

To the extent applicable and possible, the Board intends to adopt the governance structures and principles of a listed company.

The Investment Committee of the Manager is responsible for all investment decisions, subject to compliance with the investment policy set by the Board.

DIRECTORY

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY II

John McDonald

Neil Craig

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

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