POHUTUKAWA PRIVATE EQUITY II LIMITED

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

CONTENTS

April 2023

Dear Shareholder

POHUTUKAWA PRIVATE EQUITY II LIMITED
SHAREHOLDER REPORT 31 DECEMBER 2022

We are pleased to provide Shareholders with the Fund's annual report. The report includes the audited financial statements for the financial year ended 31 December 2022. As we have no 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 Realisations
The two remaining portfolio company investments were realised during 2022. Direct Capital IV & Pohutukawa II realised the remaining 4.7% interest in Bayleys Corporation and a 40% interest in PF Olsen. The PF Olsen transaction also included deferred capital proceeds which were dependent on a commercial milestone by 31 March 2023. This was subsequently confirmed on 5 April 2023 and the full amount of $800,339 has been recorded as a receivable in the financial statements as at 31 December 2022.

Distributions & Returns to Shareholders
Pohutukawa II has to date made gross distributions totalling $1.19 per share. Your shares are paid to 62 cps. The Fund's last distributions totalling 7.2 cps were paid 27 May 2022 (2.5 cps relating to the Bayleys realisation and a PF Olsen dividend) and 30 June 2022 (4.7 cps relating to PF Olsen capital from realisation and dividend). At 31 December 2022 the Total Value to Paid In Capital (TVPI) was 1.9x and the net internal rate of return (IRR) after allowing for earnout was 15.6% per annum.

Financial Position 31 December 2022
Pohutukawa II had 82.5m stapled securities on issue, paid to 62cps.
Shareholder' funds were $695,754 (2021: $5.9m), equivalent to a net asset backing of 0.8 cps. Assets totalled $885,433 including the PF Olsen receivable and cash. Earnout provision was $176,915.

The profit for the year was $438,308 (2021: $1.76m).

Administration expenses were $394,363, (2021: $286,034) with the bulk of these costs being for external investment costs of $246,675 incurred on the realisation of PF Olsen, and legal costs $34,391. Management fees were $54,412, (2021: $227,980) being the final management fees paid in January 2022. Management fees ceased from 1 April 2022.

Fund Windup

Following any final distribution, which will be subject to Board approval, the Fund will work through its windup process. We hope the full windup can be achieved before the end of the 2023 financial year. We will notify you when the windup has concluded and provide electronic access to the final set of unaudited* financial statements. Any residual cash remaining in the Fund following the final windup will be donated to the Community Foundations of New Zealand (as we did for the first Pohutukawa Fund).

*(*The Directors have recommended that future financial statements will no longer require audit and there will be no need for a formal annual report – a resolution covering these recommendations will be presented for a shareholder vote at the ASM).*

IRD review

The one matter delaying our ability to proceed with the Fund windup is a risk review currently being undertaken by Inland Revenue (IRD). The IRD made an initial request for information and documents in October 2022, which Pohutukawa is providing. The Manager expects that the IRD review of information will take further time which will delay our ability to formally windup the Fund, and the Fund will incur external advisory costs relating to the review.

Annual Shareholders Meeting

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

- **Date: Tuesday, 23 May 2023**
- **Time: 2.30 pm**
- **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 15 May 2023. 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

DIRECTORS' REPORT
For the year ended 31 December 2022

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	7,500*	4-Nov-08
N J Craig	Nil	19-Nov-08

**Last director fee payment made in April 2022*

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 2022
There were no changes in director holdings for the financial year.

Pohutukawa II Director Investment Disclosure 31 December 2021 (Directors holding office at 31 December 2022)		
Investment Holding	**J McDonald**	**N Craig**
	No. Securities	**No. Securities**
Pohutukawa II	100,000	110,000

Director
13 April 2023 Date

Director
13 April 2023 Date

Pohutukawa Private Equity II Limited

Annual Report
For the year ended 31 December 2022

Contents

Directory

Registered Office
Craigs Investment Partners House
158 Cameron Road
PO Box 13-155
Tauranga

Solicitors
Chapman Tripp
Level 34
15 Customs Street West
PO Box 2206
Auckland 1140

Directors
Neil Craig
John McDonald

Statement of comprehensive income

For the year ended 31 December 2022

	Note	2022	2021
Interest income		8,625	1,345
Dividend income		623,325	680,347
Unrealised change in fair value of investments		-	1,810,788
Gain/(Loss) on realisation of investments	*7(d)*	313,255	-
Movement in earnout provision	*13*	(112,505)	(443,692)
Interest expense		(29)	-
Administrative expenses	*5*	(394,363)	(286,034)
Profit before tax		438,308	1,762,754
Income tax expense	*6*	-	-
Profit for the year		438,308	1,762,754
Other comprehensive income for the year		-	-
Total comprehensive income for the year		438,308	1,762,754
Attributable to:			
Equity holders of the parent		(471,558)	(678,677)
Equity holders of the investment companies		909,866	2,441,431
Profit and total comprehensive income for the year attributable to the equity holders of stapled securities		438,308	1,762,754

Statement of changes in equity

For the year ended 31 December 2022

	Note	Attributable to equity holders of the parent			Attributable to equity holders of the investment companies	
		Share capital	Retained losses	Total		Total equity
Balance at 1 January 2022		20,494,589	(16,882,346)	3,612,243	2,295,205	5,907,448
Total comprehensive income for the year		-	(471,558)	(471,558)	909,866	438,308
Redemption of preference shares		(3,639,223)	-	(3,639,223)	-	(3,639,223)
Distributions to equity holders	*11*	-	-	-	(2,010,779)	(2,010,779)
Balance at 31 December 2022		16,855,366	(17,353,904)	(498,538)	1,194,292	695,754
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	*11*	-	-	-	(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

Statement of financial position

As at 31 December 2022

	Note	2022	2021
Assets			
Cash and cash equivalents	10	79,935	175,303
Receivables and prepayments	8	805,498	3,375
Investments – equity securities	7(c)	-	7,233,132
Total current assets		885,433	7,411,810
Total assets		885,433	7,411,810
Equity			
Issued capital		16,855,366	20,494,589
Retained losses		(17,353,904)	(16,882,346)
Total equity attributable to equity holders of the parent		(498,538)	3,612,243
Equity attributable to equity holders of the investment companies		1,194,292	2,295,205
Total equity attributable to equity holders of stapled securities		695,754	5,907,448
Liabilities			
Trade and other payables	12	12,764	27,452
Earnout provision	13	176,915	1,476,910
Total current liabilities		189,679	1,504,362
Total liabilities		189,679	1,504,362
Total equity and liabilities		885,433	7,411,810

For and on behalf of the Board

Director

13 April 2023

Date

Director

13 April 2023

Date

KPMG

Statement of cash flows

For the year ended 31 December 2022

	Note	2022	2021
Cash flows from/(to) operating activities			
Dividends received		623,325	680,347
Interest received		8,625	13,358
Interest paid		(29)	-
Cash paid to suppliers		(410,834)	(394,728)
Distribution of earnout	*13*	(1,412,500)	(273,727)
Net cash from/(to) operating activities	*14*	(1,191,413)	25,250
Cash flows from investing activities			
Realisations from investments		6,746,047	-
Repayment of loans receivable		-	1,191,555
Net cash from investing activities		6,746,047	1,191,555
Cash flows from/(to) financing activities			
Redemption of preference shares		(3,639,223)	-
Distributions to equity holders	*11*	(2,010,779)	(1,094,909)
Net cash from/(to) financing activities		(5,650,002)	(1,094,909)
Net movement in cash and cash equivalents		(95,368)	121,896
Cash and cash equivalents at 1 January		175,303	53,407
Cash and cash equivalents at 31 December	*10*	79,935	175,303

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 5 (2021: 6) Investment Companies, refer Note 18, 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 2022 comprise the Company and 5 (2021: 6) 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 13 April 2023.

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"). They 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 Directors intend to wind up the group on the realisation of all investments. As a result, the group is not deemed to be a going concern entity in line with NZ IAS 1 Presentation of financial statements. Therefore these financial statements have been prepared on a non-going concern basis for the year ended 31 December 2022. The directors have continued to apply the requirements of NZ IFRS. There has been no impact on the values recorded in these financial statements and the carrying amounts are expected to be recovered.

The financial statements for the year ended 31 December 2021 were prepared on a going concern basis using historical cost and the comparatives have not been restated.

The accounting policies set out below have been applied consistently across all periods presented in these financial statements.

(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.

Notes to the consolidated financial statements

2. Basis of preparation (continued)

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 7 – Investments – equity securities
- Note 13 – Earnout provision
- Note 15 – Financial risk management

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 5 (2021: 6) 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 5 (2021: 6) companies combining under the stapling arrangement are designated as the Investment Companies, refer Note 18, which invest in Portfolio Companies, refer Note 7.

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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(b) Investments in unlisted 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.

(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 fair value. 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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

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.

(h) Trade and other payables

Trade and other payables are stated at amortised cost.

i) Trade and other receivables

Trade and other receivables are measured at their cost less impairment losses (see significant accounting policy 3(f)) and are categorised as loans and receivables.

(j) 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.

(k) 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.

(l) Goods and Services Tax (GST)

All amounts are shown exclusive of GST, except for receivables and payables that are stated inclusive of GST.

KPMG

Notes to the consolidated financial statements

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 7). 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.

5. Administrative expenses

	Note	2022	2021
Management fees	*16(b)*	54,412	227,980
Directors' fees	*16(c)*	7,500	30,000
Legal Fees		34,391	-
External investment costs*		246,675	-
Other administrative expenses		51,385	28,054
		394,363	286,034

The following items of expenditure are included in administrative expenses:

	2022	2021
Auditor's remuneration to KPMG comprises:		
Audit of financial statements	12,360	18,600
Review of interim financial statements	-	5,250
	12,360	23,850

*External investment costs were incurred in relation to the realisation of PF Olsen as these were not deducted from the sale proceeds received by the fund.

6. Income tax expense

	Note	2022	2021
Income tax expense in statement of comprehensive income		-	-

Reconciliation of effective tax rate

	Note	2022	2021
Profit/(loss) before tax		438,308	1,762,754
Income tax expense at 28% tax rate		122,726	493,571
Non-assessable income		(19,608)	(430,377)
Non-deductible expenses		32,467	-
Imputation credits received		(174,531)	(190,497)
Tax losses not recognised	*9*	38,946	127,303
Total income tax expense in statement of comprehensive income		-	-

Imputation credits

	2022	2021
Imputation credits available to shareholders of the parent company:		
Through investment companies	4,358	95,088
	4,358	95,088

Notes to the consolidated financial statements

7. Investments – equity securities

Non-current investments

The Group realised all remaining investment in unlisted equity securities during the year ended 31 December 2022 (2021: 2 held).

The following table lists the investments held at the end of the previous 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
			3,579,895

(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 2022	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	-	-

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

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	2022	2021
Opening balance	7,233,132	5,422,344
Total gains:		
In profit or loss (realised and unrealised)	313,255	1,810,788
Investments at cost during the year	-	-
Divestment	(7,546,387)	-
Closing balance	-	7,233,132

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

Investments	2022	2021
Total gains/(losses) included in profit or loss for the year	313,255	1,810,788
Total gains/(losses) for the year included in profit or loss for assets held at the end of the reporting period	-	1,810,788

Notes to the consolidated financial statements

7. Investments – equity securities (continued)

(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 Nil (2021: $209,187). A movement in the downward adjustment factor of 5% changes the value of the investments by Nil (2021: $403,669). A movement in the maintainable earnings of 5% changes the value of the investments by Nil (2021: $318,678).

(c) Fair value of investments

The fair value of the total investment portfolio as at 31 December 2022 was nil (2021: $7,233,132).

(d) Gain on realisation of investments

The final proceeds were received for the realisation of Bayleys Corporation Limited in the year ended 31 December 2022 resulting in a loss of $115,952 (2021: nil), and for the realisation of shares in PF Olsen Limited resulting in a realised gain of $429,207. These have been recognised in profit or loss. (2021: no proceeds were received for the realisation of investments)

8. Receivables and prepayments

	2022	2021
Prepayments	-	3,375
GST receivable	5,159	-
Deferred sale proceeds	800,339	
	805,498	3,375

As at 31 December 2022, no receivables are considered past due (2021: $Nil).

9. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

	Note	2022	2021
Opening balance 1 January		4,181,430	4,367,493
Tax losses not recognised	*6*	38,946	127,303
Prior period adjustments		-	-
Tax losses foregone		(500,631)	(313,366)
Closing balance 31 December		3,719,745	4,181,430

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.

KPMG

Notes to the consolidated financial statements

10. Cash and cash equivalents

	2022	2021
Call deposits	79,935	175,303
Cash and cash equivalents in the statement of cash flows	79,935	175,303

Call deposits and short-term deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited.

11. Share capital

Share capital

	Investment Co's Preference shares		PPE II Ordinary shares		PPE II Preference shares	
In millions of shares	2022	2021	2022	2021	2022	2021
On issue at 1 January	495.0	907.5	82.5	82.5	5,185	5,185
Cancellation of shares	(82.5)	(412.5)	-	-	-	-
Redemption of shares	-	-	-	-	(374)	-
On issue at 31 December	412.5	495.0	82.5	82.5	4,811	5,185

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

At 31 December 2022, the share capital of the Company comprised 82,500,000 ordinary shares (2021: 82,500,000), and 4,810,735,200 preference shares (2021: 5,185,267,900). In addition, there are 412,500,000 (2021: 495,000,000) preference shares in the 5 (2021: 6) 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 (2021: $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.

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 $2,010,779 ($0.024 per share) were declared during the year by companies within the Group (2021: $1,094,909, $0.013 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

12. Trade and other payables

	2022	2021
Audit fees payable	12,360	17,775
Trade payables and accrued expenses	404	9,677
	12,764	27,452

13. Earnout Provision

	2022	2021
Opening provision	1,476,910	1,306,945
Movements during the year	112,505	443,692
Distribution of earnout during the period	(1,412,500)	(273,727)
Closing earnout provision	176,915	1,476,910

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 2022 the estimated earnout provision is calculated at $176,915 (2021: $1,476,910). This calculation is based on deferred capital proceeds from the realisation of PF Olsen Group Limited of $800,339 (2021: unrealised portfolio company fair value valuations of $7,233,132) being fully recovered. During the year ended 31 December 2022 $1,412,500 (2021: $273,727) of earnout has been distributed to the Earnout holder.

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

	Note	2022	2021
Profit/(loss) for the year		438,808	1,762,754
Adjustments for:			
Change in fair value of investments		(313,255)	(1,810,788)
Net (gain)/loss on realisation of investment		-	-
Change in trade and other receivables		(3,556)	16,098
Change in trade payables and accruals		(12,915)	(112,779)
Change in earnout provision	*13*	(1,299,995)	169,965
Net cash flow to/(from) operating activities		(1,191,413)	25,250

Notes to the consolidated financial statements

15. 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.

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 the group has deferred capital proceeds outstanding from the realisation of the investment in PF Olsen Group Limited.

The Group invests its surplus funds in short-term deposits with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited (refer Note 16). 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 4.00% (2021: 0.85%) and there are no short-term deposits (2021: none).

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

15. Financial risk management (continued)

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 11, $0.62 per share has been paid on the capped $0.80 per share (2021: $0.80 per share). The remaining $0.18 (2021: $0.18) will be called as required in accordance with the terms of the prospectus

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.

Classification and fair values

2022	Note	Total carrying amount	Fair value
Assets			
Cash and cash equivalents	*10*	79,935	79,935
Investments – unlisted equity securities	*7(c)*	-	-
Total assets		**79,935**	**79,935**
Liabilities			
Trade and other payables	*12*	12,764	12,764
Total liabilities		**12,764**	**12,764**

2021	Note	Fair value through profit of loss	Amortised cost	Total carrying amount	Fair value
Assets					
Cash and cash equivalents	*10*	-	175,303	175,303	175,303
Investments – unlisted equity securities	*7(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	*12*	-	27,452	27,452	27,452
Total liabilities		**-**	**27,452**	**27,452**	**27,452**

KPMG

Notes to the consolidated financial statements

16. Related parties

a) Identity of related parties

The Company has a related party relationship with its Investment Companies (see Note 18).

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 $54,412 (2021: $227,980).
- Call deposits of $79,935 (2021: $175,303) are held with ANZ Bank New Zealand Limited via Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Earnout of $1,412,500 (2021: $273,727) 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

	2022	2021
Directors fees (total remuneration)	7,500	30,000

No fees were owing to key management personnel at 31 December 2022 (2021: $7,500).

17. Subsequent events

On 5 April 2023 PF Olsen confirmed the full deferred capital proceeds will be distributed. Direct Capital expects to transfer capital proceeds of $800,339 to Pohutukawa Private Equity II Limited.

Due to the intent to wind up the group, the financial statements have not been prepared on a going concern basis. It is the director’s intention to commence all necessary steps to wind up the group and make a final distribution to investors.

Notes to the consolidated financial statements

18. Group entities

Investment Companies	Country of incorporation	Ownership interest* 2022	Ownership interest* 2021
Pohutukawa Alpha Limited ("Alpha")	New Zealand	-	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%

*****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 consolidated financial statements of Pohutukawa Private Equity II Limited the 'company') and its subsidiaries (the 'group') on pages 9 to 25 present fairly, in all material respects the Group's financial position as at 31 December 2022 and its financial performance and cash flows for the year ended on that date; in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 December 2022;
- 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.

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.

Emphasis of matter

We draw attention to Note 2b of the consolidated financial statements which describes that the going concern basis of preparing the consolidated financial statements has not been used because the directors intend to wind up the group on the realisation of all investments. 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
Deferred Sales Proceeds	
Refer to Note 7 and 8 within the consolidated financial statements. As part of the sale of the investment within Pohutukawa Epsilon Limited ("Epsilon") there are deferred sales proceeds contingent on certain conditions being met. There is an estimation risk with the recorded receivable and a risk that the deferred proceeds may not be recoverable and therefore may be inappropriately valued as at 31 December 2022.	Our audit procedures included: - Obtaining a copy of the sales and purchase agreement to obtain an understanding of the deferred proceeds, their conditions, payment date and the maximum potential value of the receivable; - Inquiry with management to obtain an understanding of the value recorded within the financial statements as a receivable as at 31 December 2022; - Through subsequent event procedures we obtained confirmation that the conditions associated with the sale have been triggered.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include 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) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;

— implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

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

Our objective is:

— to obtain reasonable assurance about whether the 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

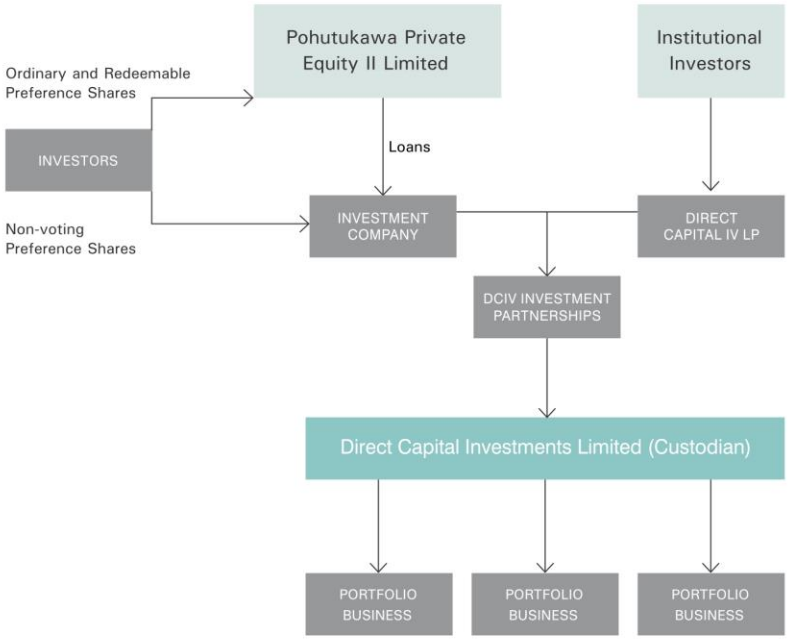
KPMG
Tauranga

13 April 2023

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 625 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. Neil is also a director of Craigs Investment Partners Ltd, CIP Holdings Ltd and a number of subsidiary companies of Craigs.

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.

OFFICES OF POHUTUKAWA
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 4, 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