

September 2022

Dear Shareholder

**POHUTUKAWA PRIVATE EQUITY II LIMITED
INTERIM REPORT 30 JUNE 2022**

We are pleased to provide Shareholders with the interim report for the period to 30 June 2022. This report is abridged reflecting that the Fund has no remaining portfolio companies. The report includes the unaudited financial statements for the interim period to 30 June 2022.

Pohutukawa II Fund

The Pohutukawa II offer raised \$82.5 million of committed capital in February 2009. Pohutukawa II co-invested with the Direct Capital IV which together totalled \$325 million in committed capital.

Distributions and Returns

Shareholders contributed capital of 62 cps or \$51.1 million and Pohutukawa II has made gross distributions totalling \$1.19 per share or \$98.2 million.

The Fund's most recent distributions were:

- 27 May 2022 - Gross distribution of 2.5 cps which included a capital return of 1.8 cps relating to final realisation of our investment in Bayleys;
- 30 June 2022 - Gross Distribution of 4.7 cps which included a capital return of 4.2 cps relating to realisation of our investment in PF Olsen.

The net internal rate of return as at 30 June 2022 was 15.6% p.a. after earnout to the manager.

Portfolio Company Investments

Pohutukawa II realised its two remaining investments at the end of the interim period.

Bayley Corporation

In March 2020 Direct Capital IV and Pohutukawa II realised the majority of their shareholding to parties associated with Bayleys. Direct Capital IV and Pohutukawa II retained a combined 4.7% shareholding in Bayleys which was fully realised in May 2022 with the capital proceeds returned to shareholders on 27 May 2022.

PF Olsen

In June 2022 Direct Capital IV and Pohutukawa II fully realised their combined 40.0% shareholding in PF Olsen Group. The large majority of the capital proceeds from the realisation were received and returned to shareholders on 30 June 2022. Further capital proceeds (shown as a receivable in the interim financial statements) are dependent on a key customer contract. Provided that the contract is not cancelled, we expect to receive further final capital proceeds by Q1 2023.

Fund Timeline

The Pohutukawa II Fund commenced in March 2009 with the final two portfolio investments realised during May-June 2022. Once the final residual capital from PF Olsen is determined the Fund will proceed to wind up and distribute final proceeds in Q1 2023.

Financial Position

As at 30 June 2022 Pohutukawa II had 82.5 million stapled securities on issue, paid to 62cps.

Shareholder' funds were \$422,005, equivalent to a net asset backing of 0.5 cps.

The profit for the period was \$164,559 Administration expenses were \$338,490.

When we know the outcome of the PF Olsen contract renewal, we will look to make a final distribution and notify you via the Registry or the Pohutukawa website www.pohutukawafund.co.nz.

If you have any queries regarding your investment in Pohutukawa II, please discuss with your Investment Adviser or you may call the Manager, Peter Lalor on 07 927 7927.

Once again, I thank you for your support of Pohutukawa Private Equity II over the years.

Yours sincerely

POHUTUKAWA PRIVATE EQUITY II LIMITED



John McDonald
Chair

Pohutukawa



**POHUTUKAWA PRIVATE EQUITY II LIMITED
UNAUDITED INTERIM FINANCIAL STATEMENTS
30 JUNE 2022**

Pohutukawa Private Equity II Limited

Unaudited Interim Report

For the six months ended 30 June 2022

Contents

Consolidated interim statement of comprehensive income	3
Consolidated interim statement of changes in equity	4
Consolidated interim statement of financial position	5
Consolidated interim statement of cash flows	6
Notes to the consolidated interim financial statements	7 – 13

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2022

	Unaudited	Unaudited	Audited
	6 months	6 months	12 months
Note	Jun 2022	Jun 2021	Dec 2021
Interest income	7,210	1,030	1,345
Dividends received	623,325	469,428	680,347
Change in fair value of investments	4 (311,966)	1,414,795	1,810,788
Gain on sale of investments	4 225,571	-	-
Movement in earnout provision	6 (41,091)	(354,814)	(443,692)
Administrative expenses	(338,490)	(123,195)	(286,034)
Operating profit/(loss) before tax	164,559	1,407,244	1,762,754
Tax expense	-	-	-
Profit/(loss) after tax	164,559	1,407,244	1,762,754
Attributable to:			
Equity holders of the parent	(345,658)	(445,921)	(678,677)
Equity holders of the investment companies	1c 510,217	1,853,165	2,441,431
Profit/(loss) for the period	164,559	1,407,244	1,762,754
Other comprehensive income for the period	-	-	-
Total comprehensive income/(loss) for the period attributable to the equity holders of stapled securities	164,559	1,407,244	1,762,754

Consolidated interim statement of changes in equity

For the six months ended 30 June 2022


Note	Attributable to equity holders of the parent			Attributable to equity holders of the investment companies	Total equity
	Share capital	Retained earnings	Total		
Unaudited					
Balance at 1 January 2022	20,494,589	(16,882,346)	3,612,243	2,295,205	5,907,448
Total comprehensive income	-	(345,658)	(345,658)	510,217	164,559
Distributions to equity holders	-	-	-	(2,010,779)	(2,010,779)
Redemption of share capital	(3,639,223)	-	(3,639,223)	-	(3,639,223)
Balance at 30 June 2022	16,855,366	(17,228,004)	(372,638)	794,643	422,005
Unaudited					
Balance at 1 January 2021	20,494,589	(16,203,669)	4,290,920	948,683	5,239,603
Total comprehensive income	-	(445,921)	(445,921)	1,853,165	1,407,244
Distributions to equity holders	-	-	-	(1,094,909)	(1,094,909)
Redemption of share capital	-	-	-	-	-
Balance at 30 June 2021	20,494,589	(16,649,590)	3,844,999	1,706,939	5,551,938
Audited					
Balance at 1 January 2021	20,494,589	(16,203,669)	4,290,920	948,683	5,239,603
Total comprehensive income	-	(678,677)	(678,677)	2,441,431	1,762,754
Distributions to equity holders	-	-	-	(1,094,909)	(1,094,909)
Redemption of share capital	-	-	-	-	-
Balance at 31 December 2021	20,494,589	(16,882,346)	3,612,243	2,295,205	5,907,448

Consolidated interim statement of financial position

As at 30 June 2022

	Note	Unaudited Jun 2022	Unaudited Jun 2021	Audited Dec 2021
Assets				
Loans and receivables	3	-	-	-
Investments – equity securities	4	-	6,837,139	-
Total non-current assets		-	6,837,139	-
Trade and other receivables	2	37,789	10,561	3,375
Loans and receivables	3	400,689	-	-
Cash and cash equivalents	5	89,441	106,620	175,303
Investments – equity securities	4	-	-	7,233,132
Total current assets		527,919	117,181	7,411,810
Total assets		527,919	6,954,320	7,411,810
Equity				
Issued capital		16,855,366	20,494,589	20,494,589
Retained losses		(17,228,004)	(16,649,590)	(16,882,346)
Total equity attributable to equity holders of the parent		(372,638)	3,844,999	3,612,243
Equity attributable to equity holders of the investment companies	1 c	794,643	1,706,939	2,295,205
Total equity attributable to equity holders of stapled securities		422,005	5,551,938	5,907,448
Liabilities				
Trade and other payables		413	14,350	27,452
Earnout provision	6	105,501	-	1,476,910
Total current liabilities		105,914	14,350	1,504,362
Earnout provision	6	-	1,388,032	-
Total non-current liabilities		-	1,388,032	-
Total liabilities		105,914	1,402,382	1,504,362
Total equity and liabilities		527,919	6,954,320	7,411,810

For and on behalf of the Board



Director

7 September 2022



Director

7 September 2022

Consolidated interim statement of cash flows

For the six months ended 30 June 2022

	Unaudited	Unaudited	Audited
Note	Jun 2022	Jun 2021	Dec 2021
Cash flows from operating activities			
Interest received	7,181	13,044	680,347
Dividends received	623,325	469,428	13,358
Cash paid to suppliers	(399,914)	(252,178)	(394,728)
Interest paid	-	-	-
Distribution of earnout	6 (1,412,500)	(273,727)	(273,727)
Net cash from operating activities	(1,181,908)	(43,433)	25,250
Cash flows from investing activities			
Realisations from investments	6,746,048	-	-
Loans to portfolio companies	-	1,191,555	1,191,555
Net cash from investing activities	6,746,048	1,191,555	1,191,555
Cash flows from financing activities			
Redemption of preference shares	7 (3,639,223)	-	-
Distributions to equity holders	7 (2,010,779)	(1,094,909)	(1,094,909)
Net cash from financing activities	(5,650,002)	(1,094,909)	(1,094,909)
Net movement in cash and cash equivalents	(85,862)	53,213	121,896
Cash and cash equivalents at beginning of period	175,303	53,407	53,407
Cash and cash equivalents at end of period	5 89,441	106,620	175,303

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

	Unaudited	Unaudited	Audited
	Jun 2022	Jun 2021	Dec 2021
Profit/(loss) for the period	164,559	1,407,244	1,762,754
<i>Adjustments for:</i>			
Changes in fair value of investments – equity securities	311,966	(1,414,795)	(1,810,788)
Gain on sale of investments	(225,571)	-	-
<i>Movements in Working Capital:</i>			
Change in trade and other receivables	(34,414)	10,356	16,098
Change in earnout provision	(1,371,409)	81,087	169,965
Change in trade and other payables	(27,039)	(127,325)	(112,779)
Net cash from operating activities	(1,181,908)	(43,433)	25,250

Notes to the consolidated interim financial statements

1. Significant accounting policies

Pohutukawa Private Equity II Limited (the “Company”) is a company incorporated and domiciled in New Zealand. The consolidated interim financial statements of the Company for the six months ended 30 June 2022 comprise the Company and 6 Investment Companies (30 June 2021: 11) (together referred to as the “Group”) and outline significant changes to information reported in the financial statements for the year ended 31 December 2021.

The accounting policies applied by the Group in these consolidated unaudited interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2021.

The unaudited interim financial statements were approved by the Directors on 7 September 2022.

(a) Statement of compliance

The interim financial statements have been prepared in accordance with New Zealand Equivalents to International Accounting Standard (NZ IAS) NZ IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2021.

(b) Basis of preparation

The Parent Company is a FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. The financial statements are presented in New Zealand dollars, which is the Group’s functional currency. They are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(c) Basis of consolidation

For every ordinary share held in Pohutukawa Private Equity II Limited, investors also hold 100 preference shares in Pohutukawa Private Equity II Limited as well as one preference share in each of the 6 (30 June 2020:6) 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 Investment Companies combining under the stapling arrangement are designated as the Investment Companies who invest in Portfolio Companies.

Investments in equity securities, which would normally be classified as investments in associates, are carried at fair value and are not equity accounted (see accounting policy 1d). This is due to the fact that the Group are private equity investors.

Notes to the consolidated interim financial statements

1. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

Special purpose entities

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

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.

(d) Investments in equity securities

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

Investments in unlisted equity securities are valued in accordance with the International Private Equity and Venture Capital (IPEV) valuation guidelines.

(e) Loans and borrowings

Loans and borrowings are recognised initially at fair value net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest rate basis.

(f) New standards and pronouncements relevant to the Group

There are no new standards, amendments or interpretations that have been issued and are effective that are expected to have a material impact on the Group.

2. Trade and other receivables

	Unaudited Jun 2022	Unaudited Jun 2021	Audited Dec 2021
GST receivable	37,788	436	-
Prepayments	-	10,125	3,375
Other receivables	-	-	-
	37,788	10,561	3,375

Notes to the consolidated interim financial statements

3. Loans and receivables

	Unaudited Jun 2022	Unaudited Jun 2021	Audited Dec 2021
Deferred capital proceeds from the realisation of PF Olsen Group	400,689	-	-
	<u>400,689</u>	<u>-</u>	<u>-</u>

4. Investments

Non-current investments

The Group has no investments in unlisted equity securities (2021: two). Group policy is to carry these investments at fair value with subsequent movements in fair value recognised in profit or loss. As there is no quoted market price for these securities in most instances, valuation techniques are utilised to determine fair value.

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

The following details the equity securities held at 30 June 2022 at their cost price:

Entity name	Activities	Initial Acquisition date	Voting Interest	Unaudited Jun 2022 Cost of Acquisition	Unaudited Jun 2021 Cost of Acquisition	Audited Dec 2021 Cost of acquisition
Bayley Corporation Limited	Real estate services	Jun 2010	1.1%	-	999,017	999,017
PF Olsen Group Limited	Forestry management	Sep 2011	9.5%	-	2,580,878	2,580,878
				<u>-</u>	<u>3,579,895</u>	<u>3,579,895</u>

Notes to the consolidated interim financial statements

4. Investments (continued)

(a) Fair value hierarchy

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

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

30 June 2022	Level 1	Level 2	Level 3	Total
Investments in unlisted equity securities	-	-	-	-
	Level 1	Level 2	Level 3	Total
30 June 2021				
Investments in unlisted equity securities	-	-	6,837,139	6,837,139
	Level 1	Level 2	Level 3	Total
31 December 2021				
Investments in unlisted equity securities	-	-	7,233,132	7,233,132

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

Investments	Jun 2022	Dec 2021
Opening balance	7,233,132	5,422,344
Total gains/(losses):		
Net change in fair value	(86,395)	1,810,788
Capital returns	(7,146,737)	-
Closing balance	-	7,233,132

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

Investments	Jun 2022	Dec 2022
Total gains/(losses) included in profit or loss for the period	(86,395)	1,810,788
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	-	1,810,788

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

Notes to the consolidated interim financial statements

4. Investments (continued)

(b) Significant unobservable inputs used in measuring fair value

Significant unobservable inputs are developed as follows:

EBITDA multiples:

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

Discount for lack of marketability:

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

5. Cash and cash equivalents

	Unaudited Jun 2022	Unaudited Jun 2021	Audited Dec 2021
Call deposits	89,441	106,620	175,303
Short-term deposits	-	-	-
Cash and cash equivalents	89,441	106,620	175,303

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a 100% subsidiary of Craigs Investment Partners Limited (refer to note 8). The interest rate at 30 June 2022 is 1.8% (30 June 2021: 0.35%).

When applicable, short-term deposits are held with ANZ Bank New Zealand Limited for periods of up to 90 days. There were no short-term deposits held at 30 June 2022, (30 June 2021: Nil).

Notes to the consolidated interim financial statements

6. Earnout Provision

	Unaudited Jun 2022	Unaudited Jun 2021	Audited Dec 2021
Opening provision	1,476,910	1,306,945	1,306,945
Change in provision due to change in Net Assets	41,091	354,814	443,692
Distribution of earnout during the period	<u>(1,412,500)</u>	<u>(273,727)</u>	<u>(273,727)</u>
Closing Earnout Provision	<u>105,501</u>	<u>1,388,032</u>	<u>1,476,910</u>

In accordance with clause 10 of the Prospectus the earnout holder is entitled to an earnout calculated at 20% of net returns to Pohutukawa Private Equity II Limited provided investors have received back their original investment together with further distributions producing a pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 30 June 2022 the estimated earnout provision is calculated at \$105,501, which is based on residual net asset value of \$527,919. Movements in the provision are recognised in profit or loss.

7. Share Capital

At 30 June 2022, the share capital of the Company comprised 82,500,000 ordinary shares (June 2021: 82,500,000), and 4,810,735,200 preference shares (June 2021: 5,185,267,900). In addition, there are 495,000,000 preference shares (June 2021: 907,500,000) in the 6 Investment Companies (June 2021: 11 with 82,500,000 in each).

Net distributions of \$5,650,000 (6.85 cps) were declared during the period by companies within the Group (30 June 2021: \$1,094,909). 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 1c per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

8. Related parties

Identity of related parties

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

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

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

Notes to the consolidated interim financial statements

8. Related parties (continued)

Transactions with related parties

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

- Management fees charged by Pohutukawa II Management Limited for the reporting period totalled \$54,412 (30 June 2021: \$119,156). At the end of the reporting period no amount was owing to Pohutukawa II Management Limited (30 June 2021: Nil).
- Craigs Investment Partners Limited paid certain expenses and collects certain receipts of Pohutukawa Private Equity II Limited. At the end of the reporting period no amount was owing to Craigs Investment Partners Limited (30 June 2021: \$1,444)
- Call deposits have been invested in ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited. At 30 June 2022 the balance held was \$89,441 (30 June 2021: \$106,620).
- Direct Capital IV Management Limited paid certain expenses on behalf of Pohutukawa Private Equity II Limited. As at 30 June 2022, no expenses were owing to Direct Capital IV Management Limited (30 June 2021: Nil).
- Pohutukawa II Investment Holdings LP received earnout distribution of \$1,412,500 during the period 30 June 2022 (30 June 2021: \$273,727).

The terms and conditions of the transactions with key management personnel and their related parties are in accordance with the terms of the management agreement.

Transactions with key management personnel

	Unaudited Jun 2022	Unaudited Jun 2021	Audited Dec 2021
Directors fees (total remuneration)	7,500	26,250	30,000

No balance is owing to directors at 30 June 2022 (30 June 2021: \$7,500).

9. Subsequent events

There were no material subsequent events for the Group.