Pohutukawa
PRIVATE EQUITY LIMITED

ANNUAL REPORT
For the period ending 31 December 2010

Contents

Report to Shareholders

14 April 2011

Dear Shareholder

I am pleased to present Pohutukawa's 2010 Annual Report.

As anticipated 2010 proved to be another challenging year for our portfolio companies. We are satisfied with the performance of the portfolio in a generally tough economic environment.

We continued our follow-on investment strategy, investing a further $1.43 million in cash into existing portfolio companies and successfully realised the investment in Triton Hearing Clinics.

A highlight for the year was the follow-on investment of $0.993 million in GoBus. This investment was made in November 2010 when GoBus acquired the business of Christchurch Bus Services Limited. This acquisition has broadened the contract income mix, adding another large urban market and further education contracts. The challenge for GoBus management has been to raise the performance standard of the buses in Christchurch and improve the quality of the bus fleet. Both these aims are being met.

Distributions to Shareholders

Pohutukawa Directors approved a distribution payment of $3.75 million, equivalent to 7.08 cents per share (cps) which was paid in March 2010.

Pohutukawa has now distributed net cash of 67.2 cps of your original $1.00 investment. Net asset backing at 31 December was 87 cps. A summary of returns to Shareholders is shown in *Table 1*.

Table 1: Investor Cash Returns to Date

Investors Cash Returns to 31 December 2010			
Original investment	$	1.00	
Distribution December 2007			0.33
Distribution November 2008			0.08
Distribution June 2009			0.02
Distribution December 2009			0.17
Distribution March 2010			0.07
*Assessed Net Asset Value 31 December 2010			0.87
			$ 1.54
Return multiple			1.5x
*Excluding manager's earnout - see Note 16 page 40			

Portfolio Company Distributions

Express Logistics

During the year to 31 December 2010 a further capital distribution of $0.902 million (1.70 cps) was received from Express Logistics as the company realises remaining assets before the liquidation is finalised.

Triton Hearing Clinics

A gross dividend of $0.187 million, along with capital proceeds of $1.2 million were received following the realisation of Pohutukawa's investment in Triton Hearing Clinics. The directors believe that the timing was in the best interests of the shareholders given the change in the industry circumstances generally. This was a satisfactory outcome. The company was acquired by a major industry participant.

Report to Shareholders

Portfolio Company Activity

Follow-on Investments & Loans

During the year three follow-on investments were made along with non-cash loan advances to NZP and NZKS and to BioPacificVentures (BPV):

Equity investments made	**$000's**
• GoBus follow-on investment	$993
• Fishpond	$179
• BioPacificVentures (BPV) follow-on investments	$189

Loans advanced	**$000's**
• New Zealand Pharmaceuticals (NZP)[1]	$3,202
• New Zealand King Salmon (NZKS)[2]	$875
• BPV portfolio companies	$451

[1]As advised in our March 2010 shareholder distribution, NZP declared a non-cash dividend to shareholders which was advanced back to the company as a loan. This enabled NZP to fully utilise available imputation credits to 31 March 2010. In December 2010 NZP repaid $0.177 million against these loans.

[2]NZKS recognised interest on loans during the year which were capitalised to a new loan and subsequently partly repaid during the year. Total loan repayments from NZKS during the year were $1.23 million.

Other

The total value of investments (excluding cash) at the end of the financial period was $42.20 million.

From our cash reserves, and from further portfolio company distributions received in 2011, a further distribution was made to Shareholders in March 2011 totalling 2.2 cents per share, equivalent to $1.165 million.

Following the March distribution Pohutukawa's cash reserves as at 31 March 2011 were $3.07 million.

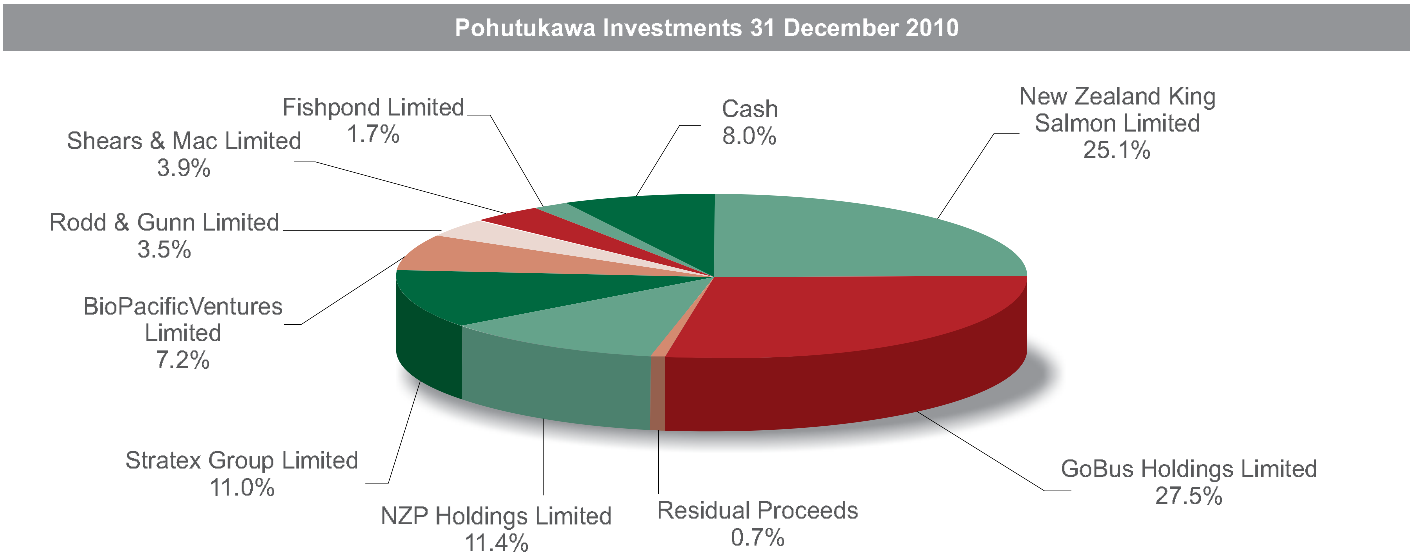
Pohutukawa's remaining cash reserves are earmarked for follow-on investment commitments to the existing portfolio companies and to BPV.

Current Investments

A summary of our current investments are set out in *Chart 1*.

Note Express Logistics, Innovair and Triton Hearing Clinics (all progressing through liquidation) are shown as "Other" or "Residual Proceeds" plus there are a number of indirect investments via BPV.

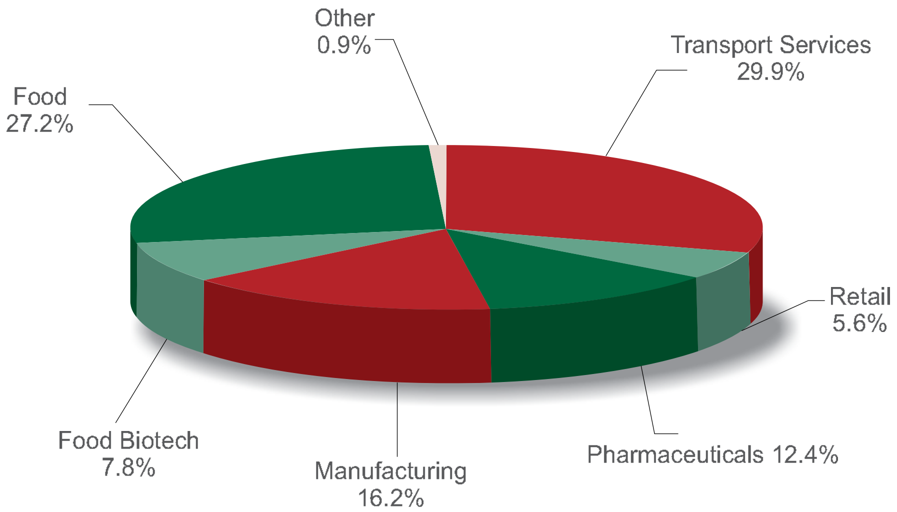
Chart 1 *- The following chart shows each investment as a percentage of the total market value of the investment portfolio (at 31 December 2010) and cash available for investment.*



Report to Shareholders

Chart 2 - Our Industry Exposure is:

Industry Exposure as at 31 December 2010



Investment Revaluations

The Manager revalues the portfolio investments each quarter using valuation guidelines issued by AVCAL (The Australian Private Equity & Venture Capital Association). Revaluations are completed for all portfolio companies.

At 31 December 2010 the Manager valued all investments at $42.2 million. This value includes shareholder loans that Pohutukawa has made to portfolio companies.

Table 2 over the page shows the cost value of the investments of $38.4 million which compares with the 31 December 2010 investment valuations of $42.2 million. This comparison does not recognise returns such as dividends and interest from these investments. The portfolio company revaluations are based on the respective company financial performances to 31 December 2010.

Portfolio Companies Performance and Outlook

The 2010 financial year continued in a similar economic state as 2009 with portfolio companies generally encountering difficult trading conditions.

Our portfolio companies have performed creditably, once again demonstrating strong resilience in demanding market conditions.

In the last 12 months, the AVCAL valuations for NZKS and GoBus have increased in value, however this was partly offset by the NZP valuation decreasing due to the impact of the stronger USD. The balance of the portfolio had small valuation increases.

All companies continue to meet banking covenants and maintain support of their respective banks.

Report to Shareholders

Table 2 Portfolio Investments at Cost

Schedule of Investments at Cost to 31 December 2010	Date of Investment	Industry	Total Investment at Cost (NZ$000)	PPE Shareholding %
Direct Investments				
NZP Holdings Limited	18 Nov 05	Pharmaceutical	7,466	15.8
Stratex Group Limited	1 May 07	Manufacturing	3,599	32.8
GoBus Holdings Limited	19 Dec 07	Transport Services	8,504	33.1
Hamilton City Bus Depot Limited	4 Dec 09	Transport Services	199	17.3
Shears & Mac Limited	16 May 08	Manufacturing	1,990	18.1
Rodd & Gunn NZ Limited	29 Jul 08	Retail	2,710	11.9
New Zealand King Salmon Investments Limited	22 Sep 08	Food	9,145	11.2
Fishpond Limited	12 Oct 09	Retail	772	4.4
Total Direct Investments			**34,385**	
BioPacificVentures Investments		Food Biotech	3,999	
Total Cost of Current Pohutukawa Investments			**$38,385**	

In the current market place businesses in a strong financial position with supportive shareholders and financiers continue to hold an important strategic advantage.

Comments on the individual portfolio company performances are provided from page 9 onwards.

Annual Financial Statements 31 December 2010

Our financial statement for the year ended 31 December 2010, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December 2010 Pohutukawa had 53 million stapled securities on issue, fully paid to $1.00.

At balance date shareholders' funds were $46.3 million. This demonstrates Pohutukawa's strong financial position and we currently carry no debt.

Assets comprised:

- Investments $30.9 million
- Loans Portfolio Companies $11.2 million
- Cash $3.7 million
- Receivables $0.4 million

Investments include revaluations of the portfolio on 31 December 2010, under the fair value method.

Loans to portfolio companies are direct shareholder loans made by Pohutukawa to these companies.

The item non-controlling interest in the financial statements refers to the equity of the Investment Companies, as this is owned directly by shareholders of the parent and not by the parent company itself. These non-controlling interests are attributable to the parent company/Pohutukawa shareholders as a result of their investment in the preference shares of the Investment Companies.

The overall performance was impacted by a positive change in dividend income offset by a negative change in fair value of investments.

Report to Shareholders

Dividend income increased to $3.88 million from $1.91 million. Much of the dividend income related to the fully imputed NZP non-cash dividend, however fully imputed dividends were also received from Fishpond and Stratex. Interest income of $1.23 million was also received from shareholder loan advances to NZ King Salmon, Rodd & Gunn and Hamilton City Bus Depot.

Operating expenses were $1.41 million, a decrease of 6% on 2009. Of the total operating expenses management fees were $1.15 million ($1.2 million in 2009), in line with the lower level of invested capital.

Table 3 *shows the Pohutukawa Performance Summary*

Pohutukawa Financial Performance Summary
For the year ended 31 December 2010

		2010 $000	2009 $000
Operating Results			
Interest income		1,225	1,449
Dividend income		3,877	1,908
Other income		282	304
Change in fair value of investments		(2,589)	4,418
Operating expenses		(1,407)	(1,498)
Surplus after tax		1,388	6,581
Share Performance			
Stapled Securities on issue	$1.00	53,000,000	53,000,000
Earnings per share		$ 0.03	$ 0.12
Estimated Net Asset backing-cents per share		$ 0.87	$ 0.92

Note: the net asset backing of 87 cps reflects the 7.08 cps distribution made in March 2010.

The profit for the period was $1.39 million, compared to $6.58 million in 2009.

The Manager

One of the roles of the Pohutukawa Board is to review the Manager's performance. This review was undertaken at the end of 2010. The Board considered the services and activities of the Manager including: all aspects of the investment management process and portfolio management; the fund's administration; investor communications; statutory reporting and governance support for the Board. The Board believes the Manager is performing to the expected standards in all respects.

Follow-on Investment Prospects

A number of the companies have growth strategies in place either by way of acquisition or organic growth. Pohutukawa is in a strong financial position, including available cash so we are in a sound position to fund investments for growth.

We will continue to keep you informed of any follow-on investments through press announcements, or through news updates on our website.

Secondary Market

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

The last sale price on 31 March 2011 was 90 cents.

Report to Shareholders

Annual Shareholders Meeting

The details for the Annual Shareholders Meeting for Pohutukawa Private Equity are:

Date:	**Tuesday, 17 May 2011**
Time:	**2.30pm**
Place:	**Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland**
RSVP:	**Contact Peter Lalor on 07 5774 727 or enquiries@pohutukawafund.co.nz by 6 May.**

We extend an invitation to you to attend this meeting and look forward to seeing you there.

Thank you for your ongoing support of Pohutukawa and I trust that you are satisfied with Pohutukawa's performance through the 2010 period.

If you have any queries regarding your investment in Pohutukawa, please call your Investment Advisor or Peter Lalor at Pohutukawa Management on 07 5774 727.

Yours sincerely,
POHUTUKAWA PRIVATE EQUITY LIMITED

John McDonald
Chairman

Manager's Report on Portfolio Companies

Portfolio Performance Summary and Outlook

The Manager is pleased to report on the performance of the portfolio over the twelve month period to 31 December 2010. The performance is reflected in increased cash returns from interest and dividend income which is offset by a reduction in the unrealised change in fair value of equity investments. Total returns from these items for the full year to 31 December 2010 was $2.80 million and although down from $8.08 million (as a result of realisations) in the previous year, reflected a stronger trading and cash generating position from our portfolio companies.

All portfolio companies traded profitably for the period and a number were in a position to maintain dividend payments and reduce shareholder loans. Those companies that did not pay dividends have retained their profit, to fund growth initiatives.

As earlier indicated, a cash distribution of 7.08 cents per share was distributed to Shareholders in 2010. Including tax credits, the March 2010 distribution represented 9.72 cents per share. Total cumulative cash and tax credit distributions made to Shareholders up to 31 December 2010 were 73.4 cents per share. When combined with a current net asset backing of 87 cents per share in gross terms this represents a total (partly unrealised) return of $1.60.

Damage caused by the September 2010 and February 2011 Christchurch earthquakes have not materially impacted the portfolio companies.

Individual performance and prospects are highlighted in the portfolio company summaries that follow. We are optimistic in our outlook for 2011 based on the portfolio's performance through a challenging 2010. Operational performance of the companies and follow-on investment opportunities continue to remain a focus.

In the challenging economic environment, the Manager continues to ensure each portfolio company controls costs and maintains a watchful eye on investment opportunities.

There were follow on investments made by Pohutukawa during the year in GoBus for $0.993 million and Fishpond $0.179 million, plus small investments via BPV. The opportunity was taken to realise our investment in Triton Hearing Clinics as a result of an approach from an industry participant and a significant change in the market.

Our investment management partners (Direct Capital) are once again to be congratulated on the financial and strategic results that each portfolio company achieved during the year.

Table 4 below provides a ranking by value of the portfolio companies according to their weighting as a percentage of their combined portfolio value.

Table 4 *Portfolio Companies Ranking by Value*

Company Ranking by Value 31 December 2010	As a % of Portfolio
Investments	
GoBus Holding Limited	29.8%
New Zealand King Salmon Investments Ltd	27.6%
NZP Holdings Limited	12.6%
Stratex Group Limited	12.2%
BioPacificVentures	6.9%
Shears & Mac Limited	4.3%
Rodd & Gunn NZ Limited	3.8%
Fishpond Limited	1.9%
Hamilton City Bus Depot Ltd	0.5%
Divestments - residual value	0.5%
Total Pohutukawa Investments	**100.0%**

Manager's Report on Portfolio Companies

NEW ZEALAND PHARMACEUTICALS

www.nzpharmaceuticals.com

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
November 2005	Pharmaceuticals	Expansion	$4,775 - equity $ 2,691 - loan **$7,466**	15.8*

*Plus 1.96% through BioPacificVentures
Total shareholding managed by Direct Capital 51.0%

Background

First established in 1971, New Zealand Pharmaceuticals (NZP) produces specialty chemicals for the pharmaceutical industry. In particular, it is a world leader in the production of cholic acid, a core ingredient in the manufacture of a number of liver disease related pharmaceuticals. In addition to its animal extracts business, NZP is becoming increasingly involved in the production of synthesized carbohydrates (or 'glycotherapeutics') for the global pharmaceuticals industry. The drugs form a large and fast-growing category of the global pharmaceuticals market and are increasingly significant to NZP's business.

Performance

NZP continues to grow volume in its major products, but the combination of the higher NZ dollar (all of its sales are US dollar denominated) and higher raw material costs which were not able to be fully passed on to customers reduced its profitability. However cash generated still enabled it to make shareholder loan and dividend repayments during the year.

NZP recently reduced its Pohutukawa loan to $2.691m, repaying $0.157million.

UK based Dextra Laboratories was acquired in 2009. Dextra is an internationally regarded carbohydrate chemistry company, the area into which NZP has been looking to grow its capability. Dextra develop and produce chemicals at lab stage for companies that are looking to develop new carbohydrate chemicals for commercial production. Its strong chemistry capability has been a significant addition to NZP's own strength.

The heparin market looks promising and NZP is evaluating some joint venture proposals to build and operate native heparin production plants. Heparin is a blood thinning drug that is used to prevent deep vein thrombosis and blood clotting in operations like knee replacements.

Outlook

The company's focus continues to be on building its carbohydrate chemistry business into a second strong earnings generator alongside the core animal by-products business.

Manager's Report on Portfolio Companies

STRATEX GROUP LIMITED

www.stratexgroup.co.nz

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
May 2007	Manufacturing	MBO	$3,599 - equity	32.8

Total shareholding managed by Direct Capital 83.2%

Background

Stratex is a specialist packaging materials manufacturer providing laminated paper, foil and film products to the packaging market. Its products are used by other packaging manufacturers in the paper, food and industrial sectors of NZ and Australia. Stratex laminates polymers and foil onto paper and film substrates, producing products such as food bags, food sachets, specialty cheese wraps, insulation materials, mill wrap, book covers and food convenience trays.

Performance

Performance for the period to 31 December has seen the company produce revenues in line with its prior period comparative but slightly below budget, while earnings are ahead of both budget and prior comparative period as a result of a positive change in product mix.

The consolidation of the of the Australian business units into the Sydney plant has been successfully implemented, with a number of operating and sales benefits.

As a result of strong operating cash flows Stratex paid a dividend of $0.164 million in December 2010.

Outlook

New product development continues to build and move through various stages of customer trialling and product approvals. Current activity supports improved sales and earnings growth into 2012.

Manager's Report on Portfolio Companies

GOBUS HOLDINGS LIMITED

www.gobus.co.nz

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
December 2007	Transport	MBO	$7,511 - equity $993 - loan **$8,504**	33.1

Total shareholding managed by Direct Capital 82.4%

Background

GoBus is the leading regional provider of public transport services throughout the North Island and in Christchurch, providing urban, school and charter/tour bus services.

Performance

On 1 December 2010 GoBus completed the acquisition of significant Canterbury bus business Christchurch Bus Services (CBS). CBS provides city services for Environment Canterbury and school run services for the Ministry of Education under long-term contracts and operates around 120 buses. The GoBus team has made substantial progress in terms of improving the operating performance of this business and the level of maintenance on the fleet acquired. CBS is being increasingly branded as GoBus, with drivers wearing the GoBus uniform and buses progressively assuming the GoBus livery. Direct Capital and Pohutukawa participated to finance this acquisition alongside other GoBus shareholders.

Early financial performance has been in line with expectation. Fortunately there was no serious injury to any GoBus staff member as a result of the Christchurch earthquake, and damage to property was limited. The level of services capable of being operated has been impacted in the short-term and GoBus continues to work constructively with Environment Canterbury to assess how timetabling and scheduling services might be best managed to suit any changing needs of the city.

In the existing business, GoBus continues to achieve appreciable gains on prior year performance, reflecting the investment made in growing its services.

Christchurch now represents GoBus' fourth urban market, adding to existing operations in Hamilton, Tauranga and the Hawkes Bay.

Outlook

The business is more than double the size it was at the time of Direct Capital's initial investment in late 2007. Further acquisitions are currently being reviewed and it is quite possible that one or more of these initiatives will be advanced in 2011. The opportunities for growth in the public transport sector are expected to remain positive.

HAMILTON CITY BUS DEPOT

Background

Hamilton City Bus Depot Limited (HCBD - previously Higgins Road Limited) is the owner of GoBus' Head Office and Hamilton bus depot at 57 Higgins Rd, Hamilton.

The investment in HCBD was made as an effective use of capital in the GoBus business.

GoBus has entered into a long-term lease of the premises with HCBD on commercial terms.

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
December 2009	Transport	N.A.	$60 - equity $ 139 - loan **$199**	17.3

Total shareholding managed by Direct Capital 42.9%

Manager's Report on Portfolio Companies

SHEARS & MAC LIMITED

www.shearsandmac.co.nz

SHEARS&MAC.

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
May 2008	Manufacturing	Expansion	$1,990 - equity	18.1

Total shareholding managed by Direct Capital 45.5%

Background

Shears & Mac Limited is a full-service provider of joinery manufacturing and installation services for the retail and commercial fit-out sectors. Shears & Mac is New Zealand's largest specialist fit-out group servicing many of the large trans-Tasman retail chains, and provides the capacity and infrastructure for significant growth both in New Zealand and increasingly into the Australian market.

Performance

Shears & Mac primarily operates in the retail sector but also has a developing commercial business. Although the retail sector has been a particularly tough one to service through the last two years, Shears & Mac has grown its business by more than 50% leveraging its growing presence in the Australian market within a favourable exchange rate environment.

Margins continue to be under significant pressure as retailers reduce capital expenditures. Earnings remain at satisfactory levels and in line with the prior comparative period, reflecting the difficult trading environment its customers are operating under.

Outlook

The company has also made the operational amalgamation of its two manufacturing sites into one larger, single site and this is expected to deliver operational improvements in 2012. The company has also completed a number of appointments within its Australian operation to set the platform for significant growth in that market.

Manager's Report on Portfolio Companies

RODD & GUNN LIMITED

www.roddandgunn.com

REGD. 1946

RODD & GUNN®

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
July 2008	Retail	Expansion	$2,591 - equity $ 119 - loan **$2,710**	11.9

Total shareholding managed by Direct Capital 30.0%

Background

Rodd & Gunn (R&G) is a menswear apparel retailer, with 75 stores in malls, on high streets and in department store concessions in Australia and New Zealand. The retailer has a long established brand and targets the premium male customer.

Performance

The period has been another particularly busy one for Rodd & Gunn with 15 Myer concession and stand alone stores opened taking the total to 75, with another 2 to be opened by the end of the financial year in June. A stand-alone store for the 'R&G Duck' product line was opened in Osborne Street in Newmarket in late 2010 and early trading has been encouraging. A further store is expected to open shortly.

During the year Rodd & Gunn underwent a significant systems implementation process with new point of sale, payroll, warehousing and financial reporting systems replacing previously outsourced arrangements. The business also moved its group head office from Brisbane to larger premises in Hawkesburn, Melbourne. These initiatives have significantly strengthened the infrastructure of the business in support of the continuing growth plans.

Kate Bergin was appointed as General Manager in late 2010. Kate has had a lengthy career in retail, most recently at Country Road where she has been variously Country Manager for NZ, Country Manager for South Africa and Group Manager of diffusion brand Trenery.

The 2010 profit result represented an appreciable gain on 2009 which was impacted by the worst of the financial crisis, and it is expected that this profit growth will continue with the 2011 result.

Outlook

While retail conditions remain challenging in both countries, the Rodd & Gunn board are optimistic about the company's prospects and the initiatives being taken within the company provide the opportunity to grow market share for the longer-term.

Manager's Report on Portfolio Companies

NEW ZEALAND KING SALMON LIMITED

www.kingsalmon.co.nz

New Zealand King Salmon

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
September 2008	Food	Expansion	$2,722 - equity $ 6,423 - loan **$9,145**	11.2*

*Plus 0.9% through BioPacificVentures
Total shareholding managed by Direct Capital 43.3%

Background

Based in Nelson with sea-farms in Marlborough and employing a total of 440 staff, NZKS is New Zealand's largest integrated aquaculture company specialising in the farming and processing of Chinook salmon. With operations including breeding, farming, processing and distribution, the company has developed its business to include a strong domestic market, plus achieving premium price positioning in export markets along with a wide variety of value-added products such as smoked salmon, fillets, tailored portions and kebabs. It owns the strong consumer brands of Regal, Southern Ocean and Seasmoke.

Performance

The EBITDA result for the 6 months to December was ahead of budget due to higher gross margins achieved and control of costs. The result was also significantly ahead of the same period last year for both sales and margins, which reflects the change to a higher percentage of fresh sales versus frozen sales compared to the same period last year.

Revenue increase was also driven by higher sales volumes.

The company is forecasting an actual EBITDA result above budget for the full financial year to 30 June 2011.

The Australian and Japanese markets continue to trade ahead of budget and are enjoying favourable exchange rates. The New Zealand market remains flat on sales and the US is behind.

Outlook

Despite the Government's positive announcements on aquaculture, a key issue faced by NZKS in its expansion goals is gaining access to new water space with favourable characteristics for salmon production. The approval process can be lengthy and complex.

NZKS is looking to acquire additional land to enable expansion of its processing capacity.

REGAL
Pure Indulgence

Manager's Report on Portfolio Companies

FISHPOND LIMITED

www.fishpond.co.nz

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
October 2009	Online retail	Expansion	$772 - equity	4.4

Total shareholding managed by Direct Capital 12.0%

Background

Fishpond is Australasia's largest local online retailer, offering a selection of over 5.5 million books, 220,000 CDs and DVDs, as well as a wide selection of games, gaming consoles, toys, electronics, and stationery. The company generates its revenue from two websites, www.fishpond.co.nz and www.fishpond.com.au.

Performance and Outlook

Fishpond again produced strong revenue growth in 2010, including adding new categories in toys, electronics and stationery. Books are still the major part of the business however and the Fishpond offering was more than doubled to 5.5 million with new supplier arrangements during the year.

An important customer service initiative was to offer free shipping on all parcels. This was partially funded by new lower cost mail suppliers, and has had a positive impact on the business, both financially and competitively. Other logistic and supply initiatives have been developed and are being tested prior to release.

A restructuring of the IT team has brought improved efficiency and focus, and the increased volumes necessitated a shift to larger premises at the end of the financial year.

The company continues to be focused on securing its position as the largest Australasian based online retailer.

Manager's Report on Portfolio Companies

BIOPACIFICVENTURES

www.biopacificventures.com

Table 5 below shows the BioPacificVentures Investments at 31 December 2010

Schedule of Investments to 31 December 2010	Date of Original Investment	Industry	Stage	Total Investment (NZ$)
BioPacificVentures Investments				
NZP Holdings Limited	Nov-05	Pharmaceutical	Expansion	$ 928,132
Vital Food Processors Limited	Feb-06	Consumer Products	Early	$ 331,754
Horizon Science Pty Ltd	Jul-06	Manufacturing	Early	$ 1,119,078
Rissington Breedline Limited	May-07	Food	Early	$ 123,511
CMP Therapeutics (formerly Anzamune)	Jul-07	Pharmaceutical	Early	$ 293,448
New Zealand King Salmon Limited	Sep-08	Food	Expansion	$ 743,599
CoDa Therapeutics Inc	Sep-08	Pharmaceutical	Start up	$ 459,810
*BPV Cash				$ 78,607
				$ 4,077,939

* Cash position 31 December 2010

Pohutukawa, at the time of its establishment, committed 10% of its committed capital ($5.3m) to BioPacificVentures (BPV), a venture fund focused on the life sciences, food and agri-tech sectors, and in particular "wellness through prevention".

Pohutukawa has contributed a total of $4.68 million to date of its $5.3 million commitment.

The majority of BPV's portfolio consists of early stage businesses, which by their nature are also high risk. Some of these portfolio companies are undertaking clinical trials around their products or are at a stage where they are about to commence the commercialisation of their product. The evaluation of the likely success of these portfolio companies is challenging and while some will succeed others will not warrant further investment. These early stage investments present Pohutukawa with potentially its main risk exposures, although these are small as a percentage of the overall portfolio. The investment risk that the early stage investments pose is mitigated by some of BPV's better performing investments in the food sector and pharmaceutical sector.

There have been eleven investments to date, since reduced to seven following the realisation from the portfolio of Cleveland Biosensors Pty Ltd, Novotech Pty Ltd, Karios Holdings Ltd and Encoate Ltd.

BPV's main focus is on the early stage portfolio companies it believes have the greatest chance of success. These companies are: Horizon Science with its successful low GI sugar product across Australia and New Zealand, CoDa Therapeutics with its promising drug development for healing chronic wounds, and Vital Foods with kiwifruit based functional foods. These companies, together with later stage investments in NZP and NZKS, represent the five largest investments in the BPV portfolio.

The 2011 outlook for these companies continues to be positive.

Directors' Report

For the year ended 31 December 2010

Directors holding office during the year and their remuneration

Directors' remuneration paid or due and payable to Directors during the year was as follows:

	Fees $	Date of appointment
J McDonald	35,000	13 May 2008
M Prendergast	35,000	3 March 2009
N J Craig	15,000	16 August 2004
F M Aldridge	15,000	3 March 2009

Entries recorded in the interests register

The entries shown in *table 6* below were recorded in the interest register of the company during the year.

The directors of Pohutukawa also have coinvestment rights in the investments that are undertaken by Pohutukawa.

Table 6 - Directors' shareholdings (including relevant interests) and dealings in Pohutukawa & Pohutukawa coinvestments as at 31 December 2010.

Pohutukawa Director Investment Disclosure 31 December 2010
(Directors holding office as at 31 December 2010)

Investment Holding	J McDonald	M Prendergast	N J Craig	F Aldridge
	No. Securities	No. Securities	No. Securities	No. Securities
Pohutukawa	100,000		209,000	
Express Logistics			7,598	2,026
NZ Pharmaceuticals Equity			16,119	4,341
NZ Pharmaceuticals Debt			9,442	2,542
Stratex Group			18,363	
GoBus Equity			39,548	
GoBus Debt			5,230	
Hamilton City Bus Depot Ltd			521	
Rodd & Gunn Equity	6,912		6,559	
Rodd & Gunn Debt	691			
Sheers & Mac Ltd			158	
NZ King Salmon Equity	23,852		16,079	
NZ King Salmon Debt	58,813		7,842	
Fishpond Ltd	282	282	176	

Director

4 April 2011

Date

Director

4 April 2011

Date

Statement of comprehensive income

For the year ended 31 December 2010

		Consolidated		Parent	
	Note	2010	2009	2010	2009
Interest income		1,225,894	1,449,473	1,215,545	1,449,473
Dividend income		3,876,881	1,908,126	-	-
Change in fair value of investments		(2,589,452)	4,418,402	-	-
Other operating income		281,914	303,736	265,712	303,736
Administrative expenses	*5*	(1,406,789)	(1,498,511)	(1,387,150)	(1,498,511)
Operating profit/(loss)		1,388,448	6,581,226	94,107	254,698
Profit/(loss) before tax		1,388,448	6,581,226	94,107	254,698
Income tax expense	*6*	-	-	-	-
Profit/(loss) for the year		1,388,448	6,581,226	94,107	254,698
Other comprehensive income for the year		-	-	-	-
Total profit and comprehensive income for the year		1,388,448	6,581,226	94,107	254,698
Attributable to:					
Equity holders of the parent		94,107	254,698	94,107	254,698
Non-controlling interest	*3a(iv)*	1,294,341	6,326,528	-	-
Profit/(loss) for the year attributable to the equity holders of stapled securities		1,388,448	6,581,226	94,107	254,698

Statement of changes in equity

For the year ended 31 December 2010

Consolidated	Attributable to equity holders of the parent				
	Share capital	Retained losses	Total	Non-controlling interest	Total equity
Balance at 1 January 2010	41,734,006	(2,698,084)	39,035,922	9,589,522	48,625,444
Total comprehensive income for the year	-	94,107	94,107	1,294,341	1,388,448
Distributions to equity holders	-	-	-	(2,848,559)	(2,848,559)
Repayment of preference shares	-	-	-	(901,622)	(901,622)
Balance at 31 December 2010	41,734,006	(2,603,977)	39,130,029	7,133,682	46,263,711
Balance at 1 January 2009	44,872,106	(2,952,782)	41,919,324	9,914,788	51,834,112
Total comprehensive income for the year	-	254,698	254,698	6,326,528	6,581,226
Distributions to equity holders	-	-	-	(6,651,794)	(6,651,794)
Repayment of preference shares	(3,138,100)	-	(3,138,100)	-	(3,138,100)
Balance at 31 December 2009	41,734,006	(2,698,084)	39,035,922	9,589,522	48,625,444

Parent	Share capital	Retained losses	Total equity
Balance at 1 January 2010	41,734,006	(2,698,084)	39,035,922
Total comprehensive income for the year	-	94,107	94,107
Repayment of share capital	-	-	-
Balance at 31 December 2010	41,734,006	(2,603,977)	39,130,029
Balance at 1 January 2009	44,872,106	(2,952,782)	41,919,324
Total comprehensive income for the year	-	254,698	254,698
Repayment of share capital	(3,138,100)	-	(3,138,100)
Balance at 31 December 2009	41,734,006	(2,698,084)	39,035,922

Statement of financial position

As at 31 December 2010

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Assets					
Loans to investment companies	17	-	-	29,735,251	28,919,733
Loans receivable from portfolio companies	8	11,247,899	6,936,559	8,222,113	6,936,559
Investments – equity securities	7	30,967,559	35,704,311	-	-
Total non-current assets		42,215,458	42,640,870	37,957,364	35,856,292
Other receivables	9	422,527	1,040,210	933,794	336,934
Cash and cash equivalents	11	3,683,492	5,061,688	3,683,492	5,061,688
Total current assets		4,106,019	6,101,898	4,617,286	5,398,622
Total assets		46,321,477	48,742,768	42,574,650	41,254,914
Equity					
Issued capital	12	41,734,006	41,734,006	41,734,006	41,734,006
Retained losses		(2,603,977)	(2,698,084)	(2,603,977)	(2,698,084)
Total equity attributable to equity holders of the parent		39,130,029	39,035,922	39,130,029	39,035,922
Non-controlling interest	3a(iv)	7,133,682	9,589,522	-	-
Total equity attributable to equity holders of stapled securities		46,263,711	48,625,444	39,130,029	39,035,922
Liabilities					
Loans/advances from investment companies	17	-	-	3,386,855	2,101,672
Trade and other payables	13	57,766	17,324	57,766	117,320
Total current liabilities		57,766	117,324	3,444,621	2,218,992
Total liabilities		57,766	117,324	3,444,621	2,218,992
Total equity and liabilities		46,321,477	48,742,768	42,574,650	41,254,914

For and on behalf of the Board

Director

4 April 2011

Date

Director

4 April 2011

Date

Statement of cash flows

For the year ended 31 December 2010

		Consolidated		Parent	
	Note	2010	2009	2010	2009
Cash flows from operating activities					
Management fees		281,483	303,736	281,483	303,736
Interest received		1,526,307	329,812	1,288,251	329,812
Dividends received		1,028,323	1,908,126	-	-
Income tax refunded		-	3,358	-	3,358
Income taxes paid		(28,860)	(23,533)	(9,660)	(23,533)
Interest paid		-	(19,278)	-	(19,278)
Cash paid to suppliers		(1,567,755)	(1,444,262)	(1,484,186)	(1,444,262)
Net cash from operating activities	*14*	1,239,498	1,057,959	75,888	(850,167)
Cash flows from investing activities					
Proceeds from sale of investments		2,235,172	7,178,497	-	-
Loans repaid by investment companies		157,315	-	1,369,300	2,800,942
Loans advanced to investment companies		-	-	(3,115,278)	(2,866,261)
Loans advanced to portfolio companies		(993,280)	(258,371)	(993,280)	(258,371)
Acquisition of investments		(266,720)	(2,866,261)	-	-
Net cash from investing activities		1,132,487	4,053,865	(2,739,258)	(323,690)
Cash flows from financing activities					
Proceeds from share calls		-	400,000	-	400,000
Loans/advances from investment companies		-	-	1,285,174	-
Loans repaid to investment companies		-	-	-	(366,114)
Repayment of preference shares		(901,622)	(3,335,133)	-	(3,335,133)
Distributions to equity holders		(2,848,559)	(6,651,795)	-	-
Net cash from financing activities		(3,750,181)	(9,586,928)	1,285,174	(3,301,247)
Net movement in cash and cash equivalents		(1,378,196)	(4,475,104)	(1,378,196)	(4,475,104)
Cash and cash equivalents at 1 January		5,061,688	9,536,792	5,061,688	9,536,792
Cash and cash equivalents at 31 December	*11*	3,683,492	5,061,688	3,683,492	5,061,688

Notes to the consolidated financial statements

1. Reporting entity

Pohutukawa Private Equity Limited (the "Company") is a company incorporated and domiciled in New Zealand. Pohutukawa Private Equity and the 14 (2009: 24) Investment Companies are registered under the Companies Act 1993 and are issuers and reporting entities for the purposes of the Financial Reporting Act 1993. The consolidated financial statements of the Company for the year ended 31 December 2010 comprise the Company and 14 (2009: 24) Investment Companies (together referred to as the "Group").

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

The financial statements were approved by the Directors on 4 April 2011.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with 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 profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS"). The financial statements also comply with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

(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 7 - Investments – equity securities
- Note 15 – Financial risk management

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Stapled securities

For every ordinary share held in Pohutukawa Private Equity Limited, investors also hold 100 preference shares in Pohutukawa Private Equity Limited as well as one preference share in each of the 14 (2009: 24) 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 Limited as the acquirer and the parent entity for the purpose of preparing consolidated financial statements. The 14 (2009: 24) companies combining under the stapling arrangement are designated as the Investment Companies who invest in Portfolio Companies.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(ii) Associates

Investments in equity securities (i.e. the Portfolio Companies), which would normally be classified as investments in associates, are carried at fair value in both the parent and 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) Non-controlling interest

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

(b) Investments in equity securities

The Group's investments in unlisted equity securities are classified as 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 the statement of comprehensive income.

Regular purchases and sales of investments are recognised on a trade-date basis. That is the date on which the Group commits to purchase or sell the asset.

Investments in unlisted equity securities, which would normally be classified as investments in associates, are carried at fair value and are not equity accounted. This is due to the fact that the Investment Companies are private equity investors.

(c) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy g).

(d) Loans receivable

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

(e) Finance income and expense

Finance income comprises interest income. Interest income is recognised as it accrues, using the effective interest rate method.

Finance expense comprises interest expense on borrowings. All borrowing costs are recognised in the statement of comprehensive income using the effective interest method.

(f) Cash and cash equivalents

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

(g) Impairment

The carrying amounts of the Group's assets, other than investments in unlisted equity securities (see accounting policy b), and deferred tax assets (see accounting policy k), 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.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The carrying amounts of the Group's receivables 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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

Impairment losses are recognised in the statement of comprehensive income. An impairment loss is reversed in the statement of comprehensive income if there has been a change in the estimates used to determine the recoverable amount.

(h) Share capital

(i) 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.

(ii) 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.

(iii) Dividends

All dividends are recognised as a liability in the period in which they are declared.Notes to the consolidated financial statements

(i) 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 statement of comprehensive income over the period of the borrowings on an effective interest rate basis.

(j) Trade and other payables

Trade and other payables are stated at cost.

(k) Revenue

(i) Services rendered

Revenue from services rendered (e.g. Management fees and Transaction fees) is recognised in the statement of comprehensive income as earned and is recorded as other operating income.

(ii) Equity investments

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

(iii) Interest income

Interest income is recognised as revenue in the statement of comprehensive income as it accrues, using the effective interest rate method.

(l) Financing expenses

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method.

(m) Income tax

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

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 provided using the balance sheet liability method, 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, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(n) Goods and services tax (GST)

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

(o) New standards and pronouncements relevant to the Group

New standards adopted

There have been no new standards and amendments to standards adopted by the Company in the current period.

New standards not yet adopted

A number of new standards are not yet effective for the year ended 31 December 2010 and have not been applied in preparing these financial statements. The standards that will be of relevance to the Company are:

NZ IFRS 7 - Financial Instruments: Disclosures – effective for periods beginning on or after 1 January 2011. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.

NZ IAS 1 – Presentation of Financial Statements - effective for periods beginning on or after 1 January 2011. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.

NZ IAS 24 - Related Party Disclosures (revised 2009) - effective for periods beginning on or after 1 January 2011. The revised NZ IAS 24 amends the definition of a related party.

NZ IFRS 9 - Financial Instruments (2010) - effective for periods beginning on or after 1 January 2013. NZ IFRS 9 is the standard issued as part of a wider project to replace NZ IAS 39. NZ IFRS 9 (2009) retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. NZ IFRS 9 (2010) retained the requirements with respect to the classification and measurement of financial liabilities with the exception of fair value option and certain derivatives linked to unquoted equity instruments. Additionally, NZ IFRS 9 (2010) also retained the recognition requirements of NZ IAS 39. Application of transitional provisions depends on an entity's adoption date of NZ IFRS 9 (2009) and NZ IFRS 9 (2010). The Group has not yet determined the potential effect of the standards.

The Group has not yet determined the potential effect of the standards.

Notes to the consolidated financial statements

4. Determination of fair values

Investments in unlisted equity securities are valued at Directors' valuation in the year of acquisition and subsequently by annual valuations carried out in accordance with the valuation principles set out by The Australian Private Equity and Venture Capital Association Limited (AVCAL). Valuations are performed by Direct Capital Management Limited (see Note 17).

5. Administrative expenses

	Consolidated		Parent	
	2010	2009	2010	2009
Management fees	1,152,844	1,202,771	1,152,844	1,202,771
Advisory fees	58,856	95,066	27,427	95,066
Directors' fees	100,000	99,829	100,000	99,829
Other administrative expenses	95,089	100,845	106,879	100,845
	1,406,789	1,498,511	1,387,150	1,498,511

The following items of expenditure are included in administrative expenses:

Auditor's remuneration to KPMG comprises:				
Audit of financial statements	39,975	28,450	39,975	28,450
Other audit-related services	11,419	5,732	11,419	5,732
Tax advice and compliance	-	-	-	-

Other audit related services include review of interim financial statements.

6. Income tax expense

	Consolidated		Parent	
	2010	2009	2010	2009
Income tax expense in statement of comprehensive income	-	-	-	-

Reconciliation of effective tax rate

	Note	2010	2009	2010	2009
Profit before tax		1,388,448	6,581,226	94,107	254,698
Income tax expense at 30% tax rate		416,534	1,974,368	28,232	76,409
Non-deductible expenses		8,228	28,520	8,228	28,520
Tax exempt income		776,836	(1,325,522)	-	-
RWT received on dividends		(19,201)	(21,797)	-	-
Imputation credits received		(1,879,813)	(898,310)	-	-
Tax (profit)/losses not recognised in the statement of comprehensive income	*10*	(697,416)	242,741	(36,460)	(104,929)
Total income tax expense in statement of comprehensive income		-	-	-	-

Notes to the consolidated financial statements

6. Income tax expense (continued)

Imputation credits

	Consolidated		Parent	
	2010	2009	2010	2009
Balance at beginning of period	14,552	3,358	1,736	3,358
Income tax paid	28,860	23,533	9,660	1,736
Income tax refunded	-	(3,358)	-	(3,358)
Imputation credits attached to dividends received	1,879,813	898,310	-	-
Imputation credits attached to dividends paid	(1,403,022)	(907,291)	-	-
Balance at end of period	520,203	14,552	11,396	1,736
Imputation credits available to shareholders of the parent company:				
Through the parent company	11,396	1,736	-	-
Through investment companies	508,807	12,816	-	-
	520,203	14,552	-	-

7. Investments – equity securities

Non-current investments

The Group has a number of investments in unlisted equity securities. Group policy is to carry these investments at fair value with subsequent movements in fair value recognised in the statement of comprehensive income. As 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 Management Limited (see Note 17) using AVCAL guidelines.

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

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 $2,063,995 (2009: $1,595,671).

A movement in the adjustment factor of 5% changes the value of the investments by $4,598,290 (2009: $5,361,754).

The following table lists the investments held at the end of the reporting period and the underlying cost of the initial acquisition.

Notes to the consolidated financial statements

7. Investments – equity securities (continued)

Non-current investments *(continued)*

As investments in equity securities are carried at fair value in the Group, the results and net assets of the Portfolio Companies are not recognised in these financial statements. The fair value of the total investment portfolio as at 31 December 2010 was $30,967,559 (2009: $35,704,311).

The difference between the cost and the carrying value in the statement of financial position is shown as a fair value movement through the statement of comprehensive income. The cost of each acquisition is shown in the tables below (excluding loans):

2010

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition**
Log Group Limited ***	Logistics	Oct 2005	19.7%	-
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.8%	4,775,157
BioPacificVentures	Private equity vehicle*	Various	*	3,117,204
Triton Hearing Clinics Limited (sold Dec 2010)	Health services	Nov 2006	-	-
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812
GoBus Holdings Limited	Transport services	Dec 2007	33.1%	7,510,506
Hamilton City Bus Depot Limited (formerly Higgins Road Limited)	Bus depot	Dec 2009	17.3%	60,380
Shears & Mac Limited	Manufacturing	Jun 2008	18.1%	1,990,295
Rodd & Gunn NZ Limited and Rodd & Gunn Australia Limited	Retail	Aug 2008	10.7%	2,590,481
New Zealand King Salmon Investments Limited	Food	Sep 2008	11.2%	2,721,682
Fishpond Limited	Online retail	Oct 2009	4.4%	772,348

2009

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition**
Log Group Limited (formerly Express Logistics Group Limited) ***	Logistics	Oct 2005	19.7%	-
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.8%	4,775,157
BioPacificVentures	Private equity vehicle*	Various	*	3,629,552
Triton Hearing Clinics Limited	Health services	Nov 2006	18.7%	1,449,930
Stratex Group Limited (formerly Paper Coaters Group Limited)	Manufacturing	Apr 2007	32.8%	3,598,812
GoBus Limited	Transport services	Dec 2007	33.1%	7,510,506
Higgins Road Limited	Bus depot	Dec 2009	17.3%	60,380
Shears & Mac Limited	Manufacturing	Jun 2008	18.1%	1,990,295
Rodd & Gunn NZ Limited and Rodd & Gunn Australia Limited	Retail	Aug 2008	10.7%	2,590,481
New Zealand King Salmon Investments Limited	Food	Sep 2008	11.2%	2,721,682
Fishpond Limited	Online retail	Oct 2009	3.5%	592,938

Notes to the consolidated financial statements

7. Investments – equity securities (continued)

* BioPacificVentures invests across the entire spectrum of private equity both in early stage and later stage investments. Investments through this venture include: New Zealand King Salmon Investments Limited, NZP Holdings Limited, Horizon Science Pty Limited, Vital Food Processors Limited, Rissington Breedline Limited, Anzamune Limited and CoDa Therapeutics Inc. Pohutukawa Alpha has an 11% share in all investments made by the venture, but the holdings in each of the portfolio companies will vary.

** Adjusted for disposals.

*** In November 2009, Log Group bought back 50% of the shares owned by Pohutukawa Gamma Investments Limited. The 1,400,034 shares were repurchased at $2.00 per share, leaving a balance of 1,400,034 shares remaining. The cost of the investment is now shown as $nil as the original loan to Pohutukawa Gamma Investments Limited has now been fully repaid.

Pohutukawa Gamma Investments Limited is now in the process of voluntary liquidation. The liquidation is expected to be completed during 2011.

8. Loans receivable from portfolio companies

	Consolidated		Parent	
Non-current assets	**2010**	**2009**	**2010**	**2009**
New Zealand King Salmon Limited	6,945,166	6,678,188	6,945,166	6,678,188
Rodd & Gunn Limited	119,377	119,377	119,377	119,377
Hamilton City Bus Depot Limited (formerly Higgins Road Limited)	138,994	138,994	138,994	138,994
GoBus Holdings Limited	993,280	-	993,280	-
Vital Food Processors Limited	25,296	-	25,296	-
NZP Holdings Limited	3,025,786	-	-	-
	11,247,899	6,936,559	8,222,113	6,936,559

Notes to the consolidated financial statements

8. Loans and receivables (continued)

New Zealand King Salmon Investments Limited

In September 2008 New Zealand King Salmon Investments Limited (investment held by Pohutukawa Alpha Investments Limited and Pohutukawa Lambda Investments Limited) was advanced $6,310,922 as a loan at an interest rate to be reviewed from time to time, currently 15.00%. The terms of the loan enable New Zealand King Salmon, at its option, to capitalise the loan and interest into equity.

During 2010, interest income of $946,638 (2009: $913,041) was capitalised to a new loan at an interest rate of nil. At the end of the reporting period $312,390 had been repaid.

Rodd & Gunn NZ Limited

In December 2009 Rodd and Gunn NZ Limited (investment held by Pohutukawa Kappa Investments Limited) was advanced $119,377 as a loan at an interest rate of 7.73% (2009: 6.78%). The terms of the loan enable Rodd & Gunn, at its option, to capitalise the loan and interest into equity.

Hamilton City Bus Depot Limited

In December 2009 Hamilton City Bus Depot Limited (investment held by Pohutukawa Theta Investments Limited) was purchased from GoBus Limited, and was advanced $138,994 as a loan at an interest rate of 8.00%. The terms of the loan enable Hamilton City Bus Depot Limited (formerly Higgins Road Limited), at its option, to capitalise the loan and interest into equity.

GoBus Holdings Limited

In November 2010 GoBus Holdings Limited (investment held by Pohutukawa Theta Investments Limited) was advanced $993,280 as a loan at an interest rate to be set annually, currently 9.00% (2009: $nil).

Vital Food Processors Limited

In September 2010 Vital Food Processors Limited (investment held by Pohutukawa Alpha Investments Limited) was advanced $25,296 as a loan at an interest rate to be set annually, currently 15.00% (2009: $nil).

NZP Holdings Limited

In March 2010 NZP Holdings Limited (investment held by Pohutukawa Alpha Investments Limited & Pohutukawa Delta Investments Limited) was advanced $3,202,658, at an interest rate of nil. At the end of the reporting period $176,872 had been repaid.

9. Other receivables

	Consolidated		Parent	
	2010	2009	2010	2009
Trade receivables due from related parties	-	237	652,427	237
Income tax receivable	63,401	1,736	11,396	1,736
Sale of investments proceeds receivable	-	703,272	-	-
Other receivables	359,126	334,965	269,971	334,961
	422,527	1,040,210	933,794	336,934

As at 31 December 2010, no trade and other receivables are considered past due (2009: $nil).

Notes to the consolidated financial statements

10. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Opening balance 1 January 2010		1,106,120	863,379	705,340	810,269
Tax profit/(loss) not recognised in the statement of comprehensive income	6	(697,416)	242,741	(36,460)	(104,929)
Closing balance 31 December 2010		408,704	1,106,120	668,880	705,340

Due to the nature of the stapled securities and the fact that ordinary shares in the Investment Companies are owned by the Manager, Pohutukawa Management Limited, there is no ability to offset losses between the Parent (Pohutukawa Private Equity 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 uncertain that future taxable profit will be available against which the Group can utilise the benefit.

Investment company's losses cannot be used by the parent.

11. Cash and cash equivalents

	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Call deposits	1,446,397	221,688	1,446,397	221,688
Short-term deposits	2,237,095	4,840,000	2,237,095	4,840,000
Cash and cash equivalents in the statement of cash flows	3,683,492	5,061,688	3,683,492	5,061,688

Call deposits are held with the National Bank of New Zealand via CIP Cash Management Nominees Limited. The weighted average interest rate for 2010 on call deposits was 3.57% (2009: 3.18% CIP Cash Management Trust Limited).

Short-term deposits are held with National Bank of New Zealand via CIP Cash Management Nominees Limited. The weighted average interest rate on short-term deposits is 4.26% (2009: 4.25% CIP Cash Management Trust Limited).

12. Share capital

Share capital

Consolidated	Investment Co's Preference shares		PPE Ordinary shares		PPE Preference shares	
In millions of shares	2010	2009	2010	2009	2010	2009
On issue at 1 January	1,272	1,272	53	53	4,198	4,532
Redemption and cancellation of shares	(530)	-	-	-	-	(334)
On issue at 31 December	742	1,272	53	53	4,198	4,198

Notes to the consolidated financial statements

12. Share capital (continued)

Parent	Ordinary shares		Preference shares	
In millions of shares	2010	2009	2010	2009
On issue at 1 January	53	53	4,198	4,532
Redemption of shares	-	-	-	(334)
On issue at 31 December	53	53	4,198	4,198

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

At 31 December 2010, the share capital of the Company comprised 53,000,000 ordinary shares (2009: 53,000,000), and 4,198,400,900 preference shares (2009: 4,198,400,900). In addition, there are 742,000,000 (2009: 1,272,000,000) preference shares in the 14 (2009: 24) Investment Companies (53,000,000 in each).

The reduction of investment company preference shares (530,000,000) is due to 10 investment companies that were surplus to requirements being liquidated.

No class of share has a par value. Ordinary shares and Investment Company preference shares have been allotted at nil value. The Pohutukawa Private Equity preference shares have been allotted at $0.01 per share.

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. 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 Gamma Investments Limited is currently in the process of being liquidated and while no preference shares in the Investment Company have yet been cancelled, $901,622 (2009: $3,841,174) has been distributed to shareholders via non-controlling interest distributions.

13. Trade and other payables

	Consolidated		Parent	
	2010	2009	2010	2009
Directors fees payable	26,125	8,438	26,125	8,438
Non-trade payables and accrued expenses	31,541	108,886	31,541	108,882
	57,766	117,324	57,766	117,320

Notes to the consolidated financial statements

14. Reconciliation of profit/ (loss) after taxation to the net cash flow from operating activities

		Consolidated		Parent	
	Note	2010	2009	2010	2009
Profit/(loss) for the year		1,388,448	6,581,226	94,107	254,698
Adjustments for:					
Change in fair value of investments		2,589,452	(4,418,402)	-	-
Interest capitalised		(875,450)	(841,853)	(875,450)	(841,853)
Non-cash dividends received		(2,848,558)	-	-	-
Capitalised interest received		1,130,750	-	1,130,750	-
Change in trade and other receivables		(23,921)	(299,545)	(203,314)	(299,545)
Change in income tax receivable		(61,665)	1,622	(9,660)	1,622
Change in trade payables and accruals		(59,558)	34,911	(60,545)	34,911
Net cash flow to/(from) operating activities		1,239,498	1,057,959	75,888	(850,167)

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.

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 reporting date there were significant concentrations of credit risk.

The Group invests its surplus funds in short-term deposits with the National Bank of New Zealand. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

Notes to the consolidated financial statements

15. Financial risk management (continued)

Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business from bank accounts, short-term deposits and loans advanced to portfolio companies which the Investment Companies hold an ownership interest in. The Group earns interest on bank accounts, short-term deposits and loans to portfolio companies. Management invest excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required. The Group may also borrow short-term funds at floating rates due to the short-term nature of these borrowings.

Loans between the parent and investment companies are interest free and due on demand.

Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances, short-term deposits and loans and receivables as detailed in Note 8. At balance date the effective interest rates for bank balances for 2010 is 3.25% (2009: 2.75%), short-term deposits for 2010 is 3.82% (2009: 4.66%), and loans advanced to portfolio companies which the Investment Companies hold an ownership interest in is 12.40% (2009: 12.90%).

Bank balances reprice daily, short-term deposits reprice within 3 months, and loans advanced to portfolio companies reprice annually.

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. 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.

Interest rate risk – repricing analysis

	Note	Total	Non interest bearing	6 months or less
Consolidated 2010				
Cash and cash equivalents	*11*	3,683,492	-	3,683,492
Loans receivable from portfolio companies	*8*	11,247,899	-	11,247,899
Total		**14,931,391**	-	**14,931,391**
Consolidated 2009				
Cash and cash equivalents	*11*	5,061,688	-	5,061,688
Loans receivable from portfolio companies	*8*	6,936,559	-	6,936,559
Total		**11,998,247**	-	**11,998,247**
Parent 2010				
Cash and cash equivalents	*11*	3,683,492	-	3,683,492
Loans receivable from portfolio companies	*8*	8,222,113	-	8,222,113
Total		**12,240,147**	-	**12,240,147**
Parent 2009				
Cash and cash equivalents	*11*	5,061,688	-	5,061,688
Loans receivable from portfolio companies	*8*	6,936,559	-	6,936,559
Total		**11,998,247**	-	**11,998,247**

Loans to and from related parties as disclosed in the Statement of Financial Position are non interest bearing and therefore have not been included in the above table.

Notes to the consolidated financial statements

15. Financial risk management (continued)

Sensitivity analysis

In managing interest rate risk the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in interest rates will have an impact on profit.

At 31 December 2010 it is estimated that a general increase of 1.0% in interest rates on its cash and cash equivalents would increase the Group's profit before income tax by approximately $23,696 (2009: $294,011) over a one-year period.

At 31 December 2010 it is estimated that a general increase of 1.0% in interest rates on its interest bearing loans and receivables would increase the Group's profit before income tax by approximately $242,288 (2009: $434,367) over a one-year period.

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. The Group has the power to borrow only with the prior written approval of the Board, and only in respect of borrowings with a maturity date not in excess of ninety days.

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 period.

Notes to the consolidated financial statements

15. Financial risk management (continued)

Classification and fair values

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Consolidated 2010						
Assets						
Cash and cash equivalents	*11*	-	3,683,492	-	3,683,492	3,683,492
Investments in equity securities	*7*	30,967,559	-	-	30,967,559	30,967,559
Loans receivable from portfolio companies	*8*	-	11,247,899	-	11,247,899	11,247,899
Other receivables	*9*	-	422,527	-	422,527	422,527
Total assets		30,967,559	15,353,918	-	46,321,477	46,321,477
Liabilities						
Trade and other payables	*13*	-	-	57,766	57,766	57,766
Total liabilities		-	-	57,766	57,766	57,766

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Consolidated 2009						
Assets						
Cash and cash equivalents	*11*	-	5,061,688	-	5,061,688	5,061,688
Investments in equity securities	*7*	35,704,311	-	-	35,704,311	35,704,311
Loans receivable from portfolio companies	*8*	-	6,936,559	-	6,936,559	6,936,559
Other receivables	*9*	-	1,040,210	-	1,040,210	1,040,210
Total assets		35,704,311	13,038,457	-	48,742,768	48,742,768
Liabilities						
Trade and other payables	*13*	-	-	117,324	117,324	117,324
Total liabilities		-	-	117,324	117,324	117,324

Notes to the consolidated financial statements

15. Financial risk management (continued)

Classification and fair values

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Parent 2010						
Assets						
Cash and cash equivalents	*11*	-	3,683,492	-	3,683,492	3,683,492
Loans to investment companies	*17*	-	29,435,251	-	29,435,251	29,435,251
Loans receivable from portfolio companies	*8*	-	8,222,113	-	8,222,113	8,222,113
Other receivables	*9*	-	933,794	-	933,794	933,794
Total assets		-	42,574,650	-	42,574,650	42,574,650
Liabilities						
Loans from related parties	*17*	-	-	3,386,855	3,386,855	3,386,855
Trade and other payables	*13*	-	-	57,766	57,766	57,766
Total liabilities		-	-	3,444,621	3,444,621	3,444,621

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Parent 2009						
Assets						
Cash and cash equivalents	*11*	-	5,061,688	-	5,061,688	5,061,688
Loans to investment companies	*17*	-	28,919,733	-	28,919,733	28,919,733
Loans receivable from portfolio companies	*8*	-	6,936,559	-	6,936,559	6,936,559
Other receivables	*9*	-	336,934	-	336,934	336,934
Total assets		-	41,254,914	-	41,254,914	41,254,914
Liabilities						
Loans from related parties	*17*	-	-	2,101,672	2,101,672	2,101,672
Trade and other payables	*13*	-	-	117,320	117,320	117,320
Total liabilities		-	-	2,218,992	2,218,992	2,218,992

Notes to the consolidated financial statements

15. Financial risk management (continued)

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 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments	-	-	30,967,559	30,967,559

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments	-	-	35,704,311	35,704,311

There have been no transfers between levels in either direction during the year.

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	**2010**	**2009**
Opening balance	35,704,311	35,598,144
Total gains or losses:		
In profit or loss	(2,589,452)	4,418,402
In other comprehensive income	-	-
Investments	266,720	2,866,261
Divestments	(2,414,020)	(7,178,496)
Closing balance	30,967,559	35,704,311

Total gains or losses included in profit or loss for the year in the above table are presented in the statement of comprehensive income as follows:

Investments	**2010**	**2009**
Total gains or losses included in profit or loss for the year	(2,589,452)	4,418,402
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	(2,326,380)	2,359,288

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 7 for sensitivity analysis with regards to the earnings multiple or adjustment factor.

Notes to the consolidated financial statements

16. Capital commitments and contingencies

During the year ended 31 December 2004, the Group entered into a commitment to invest $5,300,000 with BioPacificVentures Limited (BPV). These funds are called by BPV as required and as at 31 December 2010 $615,913 remained uncalled (2009: $928,560).

Earnout Payment

In accordance with clause 11 of the Prospectus the Manager is entitled to an earnout payment calculated at 20% of net returns to Pohutukawa after investors have received back their original investment together with further distributions producing pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 31 December 2010 the earnout payment is calculated as $3.90m (2009: $3.64m), however this calculation is based on unrealised portfolio company fair value valuations of $30.9m (2009: $35.7m) and loans receivable of $11.2m (2009: $6.9m) being fully recovered. Due to the uncertain timing and amount of investment realisation and future distributions, no provision has been made for this payment in the financial statements. A provision will not be recognised until the pre-tax compound hurdle rate has been distributed or there is more certainty that an earnout payment will be made.

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 and Direct Capital Limited own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited. 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 Limited and Direct Capital Management Limited.

Direct Capital Management Limited employees are responsible for preparing valuations of investments.

b) Transactions with related parties

During the period, Pohutukawa Private Equity Limited entered into the following transactions with related parties:
Management fees paid to Pohutukawa Management Limited totalled $1,077,751 (2009: $1,070,753).
Legal and accounting expenses incurred in relation to investment activity by Direct Capital Management Limited of $58,856 (2009: $95,066) were reimbursed by Pohutukawa Private Equity Limited.

Surplus cash has been invested in the National Bank of New Zealand via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited (2009: CIP Cash Management Trust Limited).

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.

Total loans outstanding as at 31 December 2010 were $29,735,251 (2009: $28,919,733). Loans to investment companies are non-interest bearing and are used to acquire long-term equity investments. Loans are repayable on demand.

Total loans/advances payable to investment companies as at 31 December 2010 were $3,386,855 (2009: $2,101,672). Loans are interest free and not payable until called by the investment companies.

Notes to the consolidated financial statements

17. Related parties (continued)

b) Transactions with related parties (continued)

Additionally, loans were advanced by Pohutukawa Private Equity Limited to companies which the Investment Companies hold an ownership interest (see Note 8).

c) Transactions with key management personnel

	Consolidated		Parent	
	2010	2009	2010	2009
Directors fees (total remuneration)	100,000	99,829	100,000	99,829

The balance owing to key management personnel at 31 December 2010 is $25,000 (2009: $25,938).

18. Subsequent events

The February 22, 2011 earthquake in Christchurch, has materially affected the local economy. Any portfolio companies with business activity in Christchurch are affected by this event. Similarly, the March 11, 2011 earthquake in Japan has (in an indirect way) impacted several portfolio companies. The Manager has not received any information to indicate that the carrying value of any of the investments has been impacted as a result of these events.

In March 2011 a loan reduction was made by New Zealand King Salmon Investments Limited of $634,248, refer note 8.

On 18 March 2011 the Company made a net distribution of $1,165,446, equivalent to $0.022 per share.

19. Group entities

Investment Companies	Country of incorporation	Ownership interest*	
		2010	2009
Pohutukawa Alpha Investments Limited ("Alpha")	New Zealand	0%	0%
Pohutukawa Gamma Investments Limited ("Gamma")	New Zealand	0%	0%
Pohutukawa Delta Investments Limited ("Delta")	New Zealand	0%	0%
Pohutukawa Epsilon Investments Limited ("Epsilon")	New Zealand	0%	0%
Pohutukawa Zeta Investments Limited ("Zeta")	New Zealand	0%	0%
Pohutukawa Eta Investments Limited ("Eta")	New Zealand	0%	0%
Pohutukawa Theta Investments Limited ("Theta")	New Zealand	0%	0%
Pohutukawa Iota Investments Limited ("Iota")	New Zealand	0%	0%
Pohutukawa Kappa Investments Limited ("Kappa")	New Zealand	0%	0%
Pohutukawa Lambda Investments Limited ("Lambda")	New Zealand	0%	0%
Pohutukawa Mu Investments Limited ("Mu")	New Zealand	0%	0%
Pohutukawa Nu Investments Limited ("Nu")	New Zealand	0%	0%
Pohutukawa Xi Investments Limited ("Xi")	New Zealand	0%	0%
Pohutukawa Omicron Investments Limited ("Omicron")	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 Limited but are consolidated into the group as they are stapled securities.

Audit Report

To the Shareholders of Pohutukawa Private Equity Limited

Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Pohutukawa Private Equity Limited ("the company") and the group, comprising the company and its investment companies, on pages 19 to 41. The financial statements comprise the statement of financial position of the company and the consolidated statement of financial position of the group as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows of the company and the consolidated statements of comprehensive income, changes in equity and cash flows of the group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Company and Group Financial Statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the company and group in relation to other assurance services (review of interim financial statements). Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. There are however certain restrictions on dealings which partners and employees of our firm have with the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements of Pohutukawa Private Equity Limited and its investment companies ("the company and group") on pages 19 to 41:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the consolidated financial position of the group as at 31 December 2010 and of the financial performance and cash flows of the company and the consolidated financial performance and consolidated cash flows of the group for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Pohutukawa Private Equity Limited and its investment companies as far as appears from our examination of those records.

KPMG

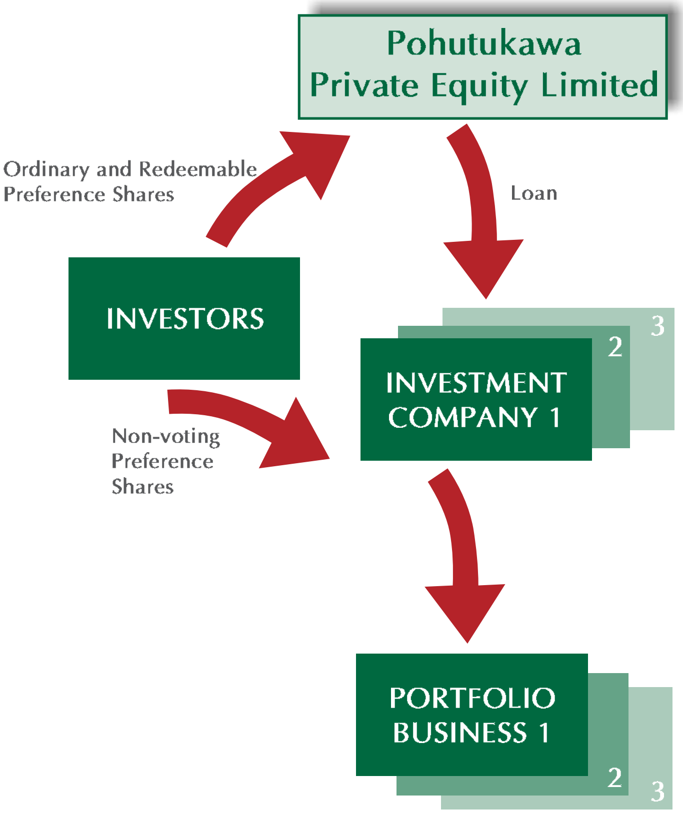
Tauranga
4 April 2011

Corporate Governance & Structure

Pohutukawa Private Equity Limited (Pohutukawa) is the Fund. Investors hold both ordinary and redeemable preference shares in Pohutukawa. Investors also hold redeemable preference shares in each of the remaining 14 special purpose vehicles (investment companies), which invest directly in the portfolio companies*. These are called stapled securities. There are 53 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.

*Note that there is one investment company, Pohutukawa Mu Investments Limited, that has invested through the DCIII - PI Mu Partnership, then into the portfolio company.

The Pohutukawa structure is:



Ordinary shares held by investors in Pohutukawa confer normal voting rights on investors. The preference shares held by investors in both Pohutukawa and the Investment Companies confer no voting rights. The Manager holds all the ordinary voting shares in each of the Investment Companies and exercises these rights in accordance with the Pohutukawa investment policy and the investment criteria. The Pohutukawa Board is proposing a change to its structure to allow the owners of the Manager, Direct Capital and Craigs Investment Partners, to enter a limited partnership arrangement and it will be the limited partnership that holds the ordinary (voting) shares in the Investment Companies rather than the Manager directly.

Pohutukawa has a separate Board to ensure best-practice corporate governance and to ensure that the shareholders' interests are held paramount. The Board has two independent directors.
For so long as it holds at least 50% of the issued shares in the Manager, Craigs Investment Partners is entitled to appoint up to 50% of the directors of Pohutukawa Private Equity. All other directors of Pohutukawa 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 content of this review. It reviews the capital adequacy of Pohutukawa and is responsible for continuous disclosure and timely shareholder meetings of Pohutukawa. The Directors of each Investment Company can be appointed or removed only by the Manager (being the holder of the ordinary shares in the Investment Company).

The Manager is a 50/50 joint venture between Direct Capital and Craigs Investment Partners, 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, administration, investor communication, and investment sourcing and divestment assistance. The Investment Committee of the Manager is responsible for all investment decisions, subject to compliance with the investment policy set by the Board.

The Pohutukawa Board

The Board of Pohutukawa Private Equity Limited (whose profiles follow) comprises four directors, two from Craigs Investment Partners and two independents, 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 Pohutukawa.

JOHN MCDONALD
(Chairman and Independent Director)

John is a Company director and trustee who has more than 30 years experience in executive and management positions with the former Fletcher Challenge group of companies through to his retirement in 2001. He 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 Solid Energy New Zealand Limited and Horizon Energy Distribution Limited. John has recently retired after over 9 years as a director of Air New Zealand. He is also Chairman of Pohutukawa Private Equity II Limited.

MAURICE JOHN PRENDERGAST
(Independent Director)

Maurice is currently Chief Executive Officer for Pumpkin Patch Limited and has held this position since 1993. During this time, the Pumpkin Patch Group has grown extensively throughout the world under Maurice's leadership. Maurice brings international business experience with him along with a wealth of knowledge in logistics, technology, retail and global expansion. Maurice has held executive positions in accounting, distribution and property development in both New Zealand and Australia. He is also a director of Comvita Limited, Pohutukawa Private Equity II Limited and a number of other private companies.

NEIL JOHN CRAIG
(Non-Executive Director)

Neil is the founding principal and Executive Chairman of Craigs Investment Partners, a leading full service NZX Participant Firm. Craigs Investment Partners has approximately 310 staff with 17 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 also a director of Pohutukawa Private Equity II Limited, the New Zealand Social Infrastructure Fund Limited, as well as being Chairman of NZX Listed Comvita Limited and a director of a number of privately held companies.

FRANK MAURICE ALDRIDGE
(Non Executive Director)

Frank is Managing Director of Craigs Investment Partners, having been appointed in 2005, previously working for some eight years in various roles at Craigs Investment Partners. During this time, Frank has been involved in all facets of private wealth management as well as a number of NZX listings and capital raisings. Prior to joining Craigs Investment Partners, Frank worked at the New Zealand Stock Exchange.

Frank is a director of Pohutukawa Private Equity II Limited and is on the board of a number of Craigs Investment Partners subsidiaries. He is also Chairman of Priority One Limited, the Tauranga and Western Bay Economic Development Agency, Chairman of the Securities Industry Association, and a member of the Bay of Plenty Regional Governance Group.

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 Private Equity Limited and Pohutukawa Management Limited must respond to any recommendations made to their Boards from the Audit Committee.

There is no remuneration committee because Pohutukawa and the Manager have no employees. The Chairman and Directors of Pohutukawa receive director's fees from Pohutukawa. 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 endeavours to adopt the governance structures and principles of a listed company.

Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY LIMITED

John McDonald
Neil Craig
Maurice Prendergast
Frank Aldridge

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

OFFICES OF POHUTUKAWA

Pohutukawa Private Equity Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3141
Phone: (07) 577 4727
Fax: (07) 928 6443

AUDITORS

KPMG
35 Grey Street
Tauranga 3141
Phone: (07) 578 5179
Fax: (07) 578 2555

MANAGER

Pohutukawa Management Limited
Craigs Investment Partners House
158 Cameron Road
PO Box 13155
Tauranga 3142
Phone: (07) 577 4727
Fax: (07) 928 6443

INVESTMENT MANAGER

Direct Capital Management Limited
Level 6, 2 Kitchener Street
P O Box 6466, Wellesley Street
Auckland 1010
Phone: (09) 307 2562
Fax: (09) 307 2349

SHARE REGISTRY

Link Market Services Limited
138 Tancred Street
PO Box 384
Ashburton 7740
Phone: (03) 308 8887
Fax: (03) 308 1311
Email: info@linkmarketservices.com

SOLICITORS

Chapman Tripp Sheffield Young
Level 35, 23-29 Albert Street
PO Box 2206
Auckland 1140
Phone: (09) 357 9000
Fax: (09) 357 9099