Pohutukawa
PRIVATE EQUITY LIMITED

ANNUAL REPORT
For the year ended 31 December 2012

Contents

Report to Shareholders

18 April 2013

Dear Shareholder

I am pleased to present Pohutukawa's 2012 Annual Report. The report includes the financial statements for the financial year ended 31 December 2012 with commentary on the performances of our portfolio companies and investment prospects for 2013.

Milestones Reached

In 2012 Pohutukawa achieved its second largest return to shareholders of 31.75 cents per share (cps), primarily from the sale of GoBus, which produced a net return of 25.69 cps. Our largest return occurred in December 2007 when Pohutukawa returned net 33.15 cps from the proceeds of the Max Fashions sale.

We also reached the key milestone of the return of your original $1 investment commitment. Our goal now is to maximise returns from the remaining six portfolio investments and the BioPacificVentures (BPV) investments.

Portfolio Performance

Overall the fair value of the portfolio has increased. The performance of New Zealand Pharmaceuticals (NZP) was outstanding, while some of our other portfolio companies encountered tough trading conditions in their respective markets.

In March 2010 *New Zealand Pharmaceuticals* (15.6% direct shareholding, plus 1.96% via BPV) paid a dividend of $2.85 million to shareholders (funded by a Pohutukawa shareholder loan). This loan has been reduced to $1.61 million at 31 December 2012 as a result of NZP's strong cash-flow position.

NZP produced a strong full year result for its financial year end 30 September 2012. This performance has provided NZP with the impetus to plan for a major plant upgrade that will result in a significant increase in its manufacturing capacity. This growth initiative will involve major capital expenditure in the region of $12 million, funded by an increase in borrowings.

New Zealand King Salmon (NZKS) (10.8% direct shareholding, plus 0.7% via BPV) faced a combination of challenges that impacted on its performance, in particular the extraordinarily high costs associated with its Environmental Protection Authority (EPA) application for additional water space in the Marlborough Sounds. This application was made to enable NZKS to acquire and develop more fish farms to increase fish production to meet export demand. The EPA gave approval for establishment of four new farms, each with a 35 year licence period. Subsequent to this approval two appeals were lodged by the Environmental Defence Society and Sustain Our Sounds; NZKS now needs to work through the appeal process. Although an expensive exercise, provided the farms are successfully established, the cost of the EPA application should translate into added shareholder value as the farms come on stream, and higher production levels are achieved and revenues and profitability increase.

NZKS recognised interest on shareholder loans during the year; in September 2012 interest of $946,000 (Pohutukawa and BPV loans) was capitalised. Due to the high costs associated with its EPA application NZKS has, to aid its working capital position in the medium term, suspended interest payments on shareholder loans from September 2012. This position will be reviewed during this year.

Stratex faces significant industry consolidation as seen by the sale of Aperio (one of its customers) to Amcor. This has seen Stratex move to adopt new strategies in the print and lamination area of packaging. We have committed further capital to support this initiative.

Fishpond has experienced rapid growth over recent years and during 2012 has been working through a major overhaul of its inventory ordering and fulfilment system and financial reporting system, which will position it well for the future.

The other portfolio companies, Rodd & Gunn and Shears & Mac, showed some encouraging signs as the retail sector emerges from its period of stagnation.

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

The Global Economy

The global economy remains fragile, with the use of financial tools such as money printing and zero/low interest rates being applied to "rescue" or stabilise economies. A number of European countries remain vulnerable because of their

Report to Shareholders

excessive debt: GDP ratios. There is no short term panacea for these indebted nations and they will struggle with their debt burdens for a very long time. This has a flow-on effect on international trade.

The ongoing uncertainty in world markets and the strong NZ dollar continues to impact our exporters. Our exporting companies in the portfolio coped well despite the continuing strong NZ dollar.

The Markets

The capital markets outperformed in the second half of 2012 and we will hopefully see this confidence flow through to the general economy. The retail sector in both New Zealand and Australia is hinting at a recovery, albeit very gradual.

Follow-on Investments

We did not make any follow-on investments in the existing portfolio companies during the year, although Direct Capital and Pohutukawa have made an investment commitment of up to $1 million for 2013-2014 to Stratex Group (with contributions of $250,000 spread across four quarters). As part of our BioPacificVentures (BPV) commitment we made some small follow-on investments.

We have cash of approximately $2.9 million should portfolio companies require follow-on investments.

We remain satisfied with the portfolio as a whole and we were pleased with the profit performance for the year.

Our focus remains on providing financial and other support to our portfolio companies to enable them to pursue viable growth strategies.

Distributions to Shareholders

Pohutukawa made a distribution of $16.83 million on 18 May 2012. This was equivalent to net 31.75 cps. This distribution comprised cash flows from the portfolio companies shown in *Table 1*:

Table 1 - 2012 Distributions

Pohutukawa Portfolio Company Distributions for 2012

Portfolio Company	Return Type	Cents per share Gross	Cents per share Net
GoBus + HCBD*	Capital	25.21	25.21
Innovair	Capital	5.34	5.34
GoBus + HCBD	Dividend	0.67	0.48
NZ King Salmon	Dividend	0.92	0.64
Fishpond	Dividend	0.04	0.03
BioPacificVentures	Dividend	0.07	0.05
Total Distributions		**32.26**	**31.75**

* Hamilton City Bus Depot

Pohutukawa has realised investment proceeds of $63.9 million and you have received back by way of imputed dividend and capital returns $1.088 gross (net $1.012) per share from your original $1 per share investment.

Net asset backing at 31 December 2012 was 61.0 cps (prior to provision for the Manager's earnout of approximately 14 cps).

A summary of gross returns made to Shareholders is shown in *Table 2*:

Table 2 - Summary of Investor Returns

Investors Gross Return to 31 December 2012

Original investment	**$ 1.00**
December 2007	0.35
November 2008	0.08
June 2009	0.02
December 2009	0.18
March 2010	0.10
March 2011	0.03
May 2012	0.32
*Assessed Net Asset Value 31 December 2012	0.61
***Estimated Gross Return**	**$1.69**
Return multiple before earnout	**1.69x**

* Excluding manager's earnout currently estimated to be $0.14

Report to Shareholders

Porfolio Position

The total value of investments (excluding cash of $3 million) at the end of the financial period to 31 December 2012 was $29.2 million.

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

A breakdown of our investments (at cost) and cash position at 31 December 2012 are shown in *Chart 1*, while *Chart 2* shows the investment portfolio's industry sector weightings.

Chart 1 - Pohutukawa portfolio weightings at cost to 31 December 2012

Pohutukawa Investments at Cost to 31 December 2012

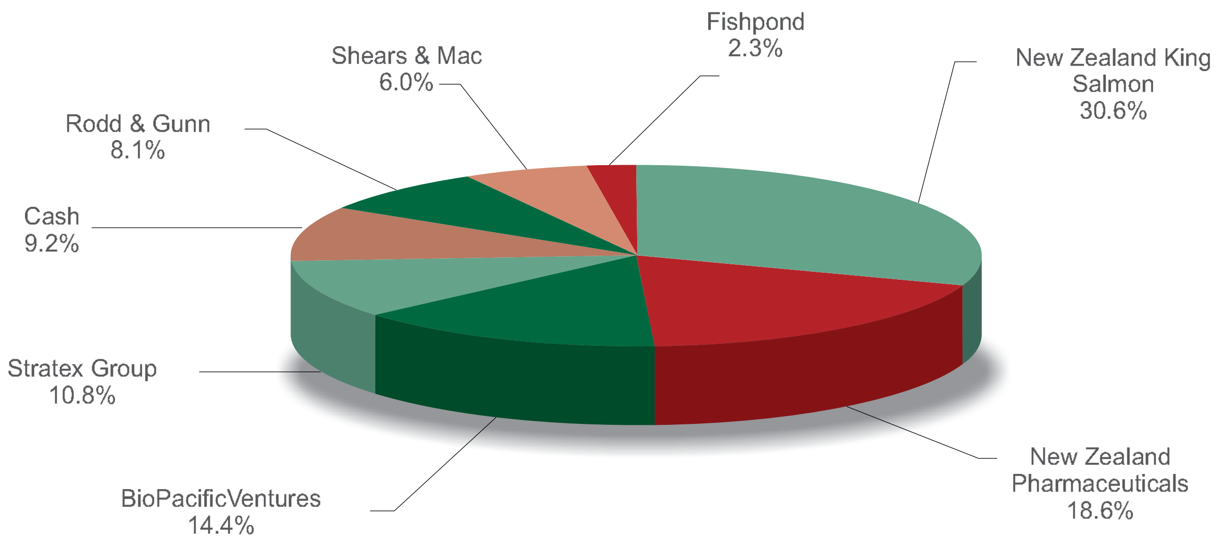
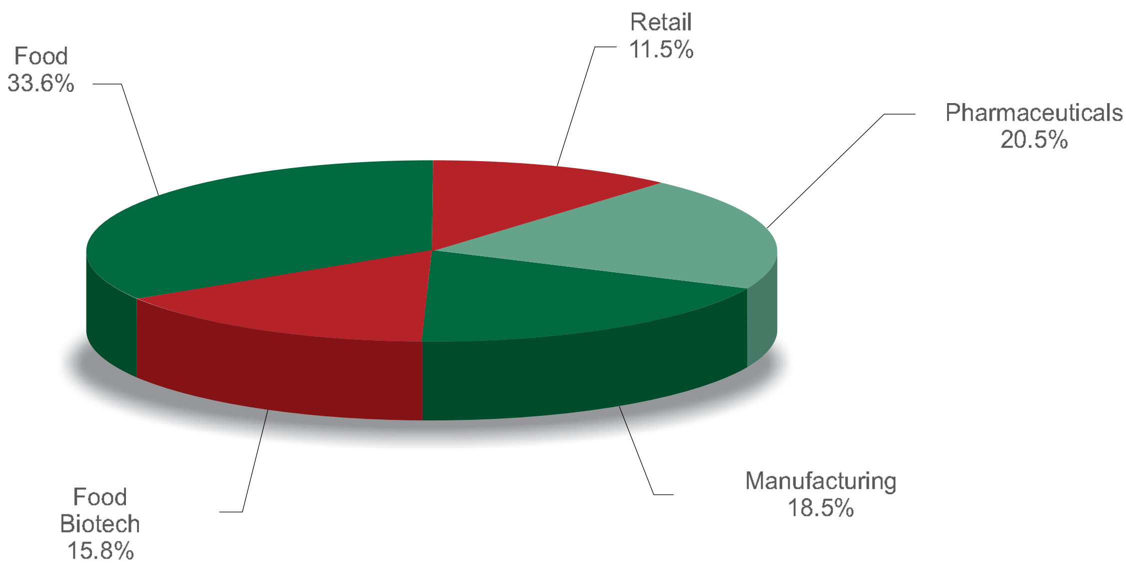


Chart 2 - Industry sector exposure

Industry Sector Exposure 31 December 2012



Report to Shareholders

Portfolio Company Investment Valuations

The Manager revalues the portfolio company 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 2012 the Manager valued the investments at $29.2 million. This value includes shareholder loans that the Pohutukawa group has made to portfolio companies.

Table 3 shows the cost of the investments at $29.5 million, 1.0% above current valuation. This comparison does not though recognise returns such as dividends and interest received from these investments. The company revaluations are based on the respective company financial performances to 31 December 2012.

Portfolio Companies Outlook

The 2012 financial year proved to be another challenging year for our portfolio companies. Trading conditions were again difficult. The portfolio as a whole weathered the storm in reasonably good order, proving its resilience in testing trading conditions.

The portfolio equity valuation at December 2012 recorded a $3.9 million increase from the 2011 level (see change in fair value in the statement of financial position), with most of this increase attributable to NZP. NZP's strong performance was offset by generally lower profitability by the remainder of the portfolio. Our larger companies remain focused on controlled expansion of their operations. The Manager continues to focus on sustainable levels of financial resources in each portfolio company.

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

Annual Financial Statements 31 December 2012

Our financial statements for the year ended 31 December 2012, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December 2012 Pohutukawa had 53 million stapled securities on issue, fully paid to $1.

At balance date shareholders' funds were $32.3 million, equivalent to a net asset backing of 61.0 cps. This demonstrates our strong financial position and we have no debt.

***Table 3** Summary of Portfolio Company Investments*

Summary of Investments to 31 December 2012	Date of Investment	Industry	Investments at Cost (NZ$000)	Pohutukawa Shareholding %
Direct Investments				
NZP Holdings Limited	18 Nov 05	Pharmaceutical	6,207	15.6
Stratex Group Limited	1 May 07	Manufacturing	3,599	32.8
Shears & Mac Limited	16 May 08	Manufacturing	1,990	15.7
Rodd & Gunn NZ-Australia Limited	29 Jul 08	Retail	2,710	11.9
New Zealand King Salmon Investments Limited	22 Sep 08	Food	10,178	10.8
Fishpond Limited	12 Oct 09	Retail	772	4.4
Total Direct Investments			**25,456**	
BioPacificVentures Investments		Food Biotech	4,041	
Total Cost of Current Pohutukawa Investments			**$29,497**	

Report to Shareholders

Assets comprised:

- Investments $19.3 million
- Loans Portfolio Companies $9.9 million
- Cash $3.0 million
- Receivables $0.06 million

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

The item *non-controlling interest* in the statement of financial position 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 Pohutukawa shareholders as a result of their preference shares held in the Investment Companies.

Dividend income was $282,000 received from GoBus, Hamilton City Bus Depot and Fishpond. Interest income of $823,000 was also received from shareholder loan advances to New Zealand King Salmon, GoBus and Hamilton City Bus Depot.

The investment portfolio is re-valued under the fair value method at 31 December 2012. There was a $3.9 million positive change in the fair value of investments compared to the previous year's $1.5 million decline in fair value.

Administrative expenses were $1.2 million, an 11% decrease on 2012 as a result of lower management fees which were adjusted following the sale of GoBus. Management fees were lower at $986,000 ($1.1 million in 2011). Management fees will continue to decrease as investments are realised as the fee is calculated on the cost of the remaining investments and not on the original committed capital.

The profit for the financial year end was $5.47 million, compared to a $1.42 million loss in 2011.

Table 4 shows the Pohutukawa Financial Performance Summary for the year ended 31 December 2012.

Table 4 - Pohutukawa Financial Performance Summary

Pohutukawa Financial Performance Summary For the year ended 31 December 2012			
		2012 **$000**	**2011** **$000**
Operating Results			
Interest income		823	1,160
Dividend income		282	383
Other income		288	117
Gain/(Loss)on sale of investments		1,403	(179)
Change in fair value of investments		3,891	(1,544)
Administrative expenses		(1,207)	(1,358)
Profit/(Loss) before tax		5,480	(1,422)
Tax expense		(12)	0
Profit/(Loss) after tax		5,468	(1,422)
Share performance			
Stapled Securities on issue	$1.00	53,000,000	53,000,000
Earnings per share		$0.10	($0.03)
*Estimated Net Asset backing-cents per share		$0.61	$0.82

** Excluding any provision for manager's earnout.*

The Manager

One of the roles of the Pohutukawa Board is to review the Manager's performance. 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

Pohutukawa shares are fully paid to $1.00 so our remaining cash surplus plus any retained capital from company realisations may be applied to fund follow-on portfolio company investments. The directors may review this position at any time and choose to release surplus capital to shareholders.

Report to Shareholders

All our companies have growth strategies in place. Pohutukawa is in a strong financial position to fund such growth, and most of the portfolio companies are also in a position to borrow to fund expansion. We may consider leveraging further follow-on portfolio company investments. This avenue would be assessed on a case by case basis and the numbers would need to support the borrowing case on a very conservative basis.

We will continue to keep you informed of any material 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, and details are available on the Pohutukawa website www.pohutukawafund.co.nz.

The last sale price on 31 March 2013 was 52 cents while the net asset backing was approximately 47* cents per share at 31 December 2012 (*Note: this net asset backing is after allowing for the earnout fee payable to the Manager of approximately 14 cps based on valuations to 31 December 2012).

Annual Shareholders Meeting

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

Date: **Thursday, 16 May 2013**
Time: **2.30pm**
Place: **Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland**
RSVP **by 6 May 2013: Contact Peter Lalor on 07 577 4727 or enquiries@pohutukawafund.co.nz**

You are welcome to attend this meeting (and to attend the following Pohutukawa II meeting). We look forward to seeing you there.

Thank you for your ongoing support of Pohutukawa Private Equity.

If you have any queries regarding your investment in Pohutukawa, please call your Investment Adviser or Peter Lalor at Pohutukawa Management on 07 577 4727.

Yours sincerely,
POHUTUKAWA PRIVATE EQUITY LIMITED

John McDonald
Chairman

Manager's Report on Portfolio Companies

The Manager is pleased to report on the portfolio's performance for the year ended 31 December 2012.

General market trading conditions have remained stable during 2012 which has resulted in a favourable but mixed performance from the portfolio. Each of the remaining portfolio companies remain focussed on realising the value from their strategic plans. These results will not all occur at the same time, and ultimately some will be more successful than others, but the Manager continues to support each of the portfolio companies and is pleased with the performance of the portfolio overall.

The financial year included a number of highlights for the fund and investors:

- The successful GoBus liquidity event in May 2012. We are pleased with the financial outcome, having worked closely with the management team over an extended period to rapidly grow the company both from an earnings and geographical standpoint. The investment highlights the benefit of Pohutukawa providing the financial resources to enable its businesses to take advantage of business opportunities as they arise;

- A cash distribution of 31.75 cps made to shareholders in May 2012 bringing the gross distributions made from inception through to 31 December 2012 to a total of 108.8 cps. When combined with a current net asset backing of 61.0 cps (before Manager's Earnout), this represents a total (partially unrealised) gross return of $1.69, (compared with your $1 capital contribution). Current estimation of the Manager's Earnout is 14 cps based on prevailng portfolio valuations;

- Profit before tax of $5.47 million, a significant uplift on 2011. The result was assisted by both the GoBus realisation and a material uplift in the unrealised fair value of the remaining portfolio. The overall financial result was very pleasing.

Of particular note was the marked uplift in trading performance for NZP during the year. This was assisted by solid growth in customer demand and an improved performance in non-core products. These changes more than compensated for the higher exchange rate.

Whilst satisfied with performance at a portfolio level during 2012, we are actively working towards an improved trading performance for 2013.

The remaining portfolio companies have ambitious strategic targets to achieve moving forward, and these will require significant investment in human and financial resources by all stakeholders. These include:

- New Zealand King Salmon has incurred significant expense with its EPA application process (costing considerably more than anticipated). If approved this will enable the business to move forward with confidence;

- Stratex has embarked on sizable capital expenditure plans to broaden capabilities due to changing market conditions. Although this transition will be challenging the company has made pleasing progress over the last six months;

- Rodd & Gunn, Shears & Mac and Fishpond are focussed on developing new revenue streams with a particular emphasis on new products or developing into new market areas.

Providing the economy continues its gradual improvement through the course of the year we remain cautiously optimistic in our outlook for 2013, while recognising the challenges still ahead for our portfolio companies.

Subsequent to year end we have made an investment commitment to Stratex Group to fund additional manufacturing capabilities. While there were no direct follow-on investments made, BPV made several small follow-on investments.

Our management partners are to be commended on a satisfying outcome for the portfolio during another very demanding operating cycle.

Manager's Report on Portfolio Companies

Individual performances and prospects are highlighted in the portfolio company summaries that follow.

Table 5 opposite lists the portfolio companies according to their weighting as a percentage of their combined portfolio investment size.

Table 5 Portfolio Companies Ranking

Company Ranking Based on Investment Size at 31 December 2012	As a % of Portfolio
Investments	
New Zealand King Salmon Investments Limited	34.5%
NZP Holdings Limited	21.0%
BioPacificVentures	13.7%
Stratex Group Limited	12.2%
Rodd & Gunn NZ Limited	9.2%
Shears & Mac Limited	6.7%
Fishpond Limited	2.6%
Total Portfolio Company Investments	**100.0%**

NEW ZEALAND PHARMACEUTICALS

www.nzpharmaceuticals.com

Date of Original Investment	Industry	Stage	Total Investment Cost $000	Shareholding %
November 2005	Pharmaceuticals intermediates	MBO	$4,775 - equity $ 1,432 - loan **$6,207**	15.6*

* Total shareholding managed by Direct Capital 51.0%

Background

New Zealand Pharmaceuticals (NZP) is an international supplier of specialised biopharmaceuticals and carbohydrates. 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 (from which cholic acid is produced), NZP produces a number of synthesized carbohydrate chemicals.

Performance

NZP achieved an excellent result for its 2012 financial year, surpassing the good result of 2011. Despite the strong New Zealand dollar pegging back its primarily US dollar receipts, the company achieved a 15% increase in annual revenues and excellent profit growth. The fact that its earnings in the 2012 year were a record result (when the US$/NZ$ cross rate exceeded 80c, compared with the previous year's 70c) highlights the excellent progress that the company has made in recent years.

The company continues to actively transfer chemistry expertise between the United Kingdom (its Dextra subsidiary) and Palmerston North.

Outlook

The Board has approved a significant capital expenditure program to:

- Undertake upgrades necessary to maintain regulatory compliance to supply GMP bile acids; and
- Increase manufacturing capacity, which is currently fully utilised, by 25%;

R&D continues on other new product developments, with the UK Chemistry team having added significant capability to the business in the bile acids as well as the carbohydrate chemistry area.

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 manufacturer in the niche packaging sector of extrusion coated and laminated packaging materials for the paper, food and industrial markets of NZ and Australia. Stratex laminates polymer (plastic) and foil on to paper and film, producing products such as foil and non-foil food bags, food sachets, specialty cheese wraps, insulation materials, mill wrap, book covers and formed trays (such as convenience meal bases).

Performance

The company completed a large capital expenditure investment acquiring new print capabilities during the year to broaden its print offering. The new plant is now fully operational and enjoying pleasing levels of activity of a particularly high standard.

The investment was completed to enhance its market position within the industry.

Outlook

With the new plant the company has won new business and incremental other business in a relatively short period. The company continues to see good opportunities to grow sales particularly in the food sector.

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	15.7*

* Total shareholding managed by Direct Capital 39.5%

Background

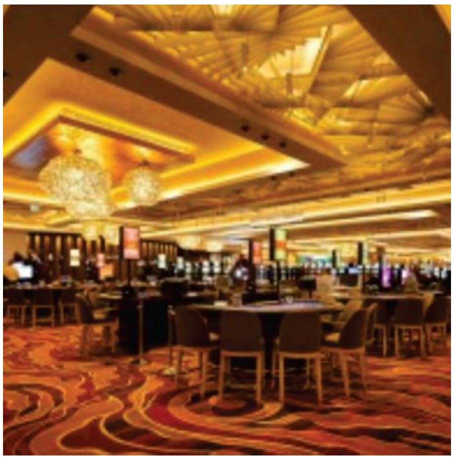
Shears & Mac Limited is a full-service provider of joinery manufacturing and installation services for the retail, hospitality, gaming and commercial sectors. Specialising in fit-outs, the company provides joinery manufacturing based on fully integrated operational production systems, and installation services managing the actual fit-out and associated services. Shears & Mac is New Zealand's largest specialist fit-out group, and provides the capacity and infrastructure for significant growth, both in New Zealand and increasingly in to the Australian market.

Performance

Whilst the market environment to achieve its game plan has been difficult, Shears & Mac has achieved significant revenue growth during the investment period and operating margins are gradually improving. It retains a strong market position, is growing its Australian market presence and has broadened its sector focus to include commercial fit-out opportunities.

Outlook

The retail sector continues to be difficult across both New Zealand and Australian markets as retailers limit discretionary shop refits and mall operators limit enforcement of automatic refit clauses within tenancy agreements. Shears & Mac continue to benefit from the relationships it has built in the Australian gaming and hospitality sectors but continues to operate in a competitive environment.



Manager's Report on Portfolio Companies

RODD & GUNN

www.roddandgunn.com

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 is an apparel retailer, with 82 Rodd & Gunn and 18 Bing Harris outlets, in malls, on high streets and in department store concessions in Australia and New Zealand. Rodd & Gunn is a long established brand that targets the premium male customer, while the Bing Harris brand was re-launched in 2012 targeting the male youth market.

Performance

While retail trading conditions generally remain challenging, there has been some improvement in the key Australian market and Rodd & Gunn achieved a strong result for the Christmas trading period. The last 12 months have represented a busy year for the company with several Rodd & Gunn store openings, the launch of Bing Harris stores in NZ and concessions within Myer in Australia, and with the continued development of the wholesale sales business in Australia and the USA demonstrating considerable potential. The company also continues to focus on maximising online sales opportunities from both brands websites.

Outlook

With the key Christmas trading season now completed, and with a more positive retail climate in Australia continuing, the business is well placed to record positive growth in both sales and EBITDA this financial year to June 2013. Investments made to expand market share continue to leave the business well positioned for the future.

Manager's Report on Portfolio Companies

NEW ZEALAND KING SALMON

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 $ 7,455 - loan **$10,177**	10.8*

* Total shareholding managed by Direct Capital 41.6%

Background
Based in Nelson with farms in Marlborough and employing 432 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 with a wide variety of value-added products such as smoked salmon, fillets, tailored portions and kebabs. It owns the strong consumer brands of Ora King, Regal and Southern Ocean.

Performance
The main focus for NZKS last year was their EPA application for additional marine farms. The EPA released their final decision on the NZKS application in February 2013 when they approved four of the nine sites applied for.

Since the approval two appeals have been lodged against the EPA decision. It is likely the appeals will be heard in the High Court over the next quarter. Over a period of time the four sites will allow the company to double the current production level. The consents contain a number of conditions supported by NZKS which will ensure sustainable development of the new sites. In addition the sites were approved for 35 years.

The additional farms will ensure the company continues to adopt best international farming practices.

The company continues to experience fish production issues during the summer months on the low flow farm sites. Management continue to review the specific issues that may cause production problems and has allocated significant additional capital to adopt new technologies covering net cleaning, aeration and feeding in addition to new farm structures. With fish production volumes affecting the ability to meet demand, the financial period was below budget driven by lower sales in all markets including the domestic market.

Outlook
Although export market prices have risen significantly over the last six months, markets have been slow to increase their sales rates and remain behind targets. The New Zealand market continues to perform exceptionally well particularly for added value products.

NZKS has now launched its new ultra-premium brand 'Ora King' ('fresh and alive') in all export markets and is pleased with the market reaction particularly with the restaurant trade. A number of leading chefs are labelling the product on menus.

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 more than 10 million products, including books, toys, health and beauty products, music, movies, games, shoes, and many other product categories.

Performance
Revenue growth was again achieved; however profit was reduced by a systems integration issue which has now been satisfactorily resolved. Fishpond experienced good growth and the business continued to expand its product range (now more than 10 million) and made some key senior management appointments. Fishpond experienced growth in categories outside the main book category.

Outlook
Revenue growth is forecast to continue, with an increased focus on margins, while maintaining Fishpond's high market share of online book sales.

Manager's Report on Portfolio Companies

BIOPACIFICVENTURES

www.biopacificventures.com

Table 6 below shows BioPacificVentures Investments to 31 December 2012, at cost:

Schedule of Investments to 31 December 2012	Date of Original Investment	Industry	Stage	Investment Cost (NZ$000)
BioPacificVentures Investments				
NZP Holdings Limited	Nov-05	Pharmaceutical	Expansion	$ 772
Vital Food Processors Limited	Feb-06	Consumer Products	Early	$ 341
Horizon Science Pty Limited	Jul-06	Manufacturing	Early	$ 1,119
Rissington Breedline Limited	May-07	Food	Early	$ 133
CMP Therapeutics	Jul-07	Pharmaceutical	Early	$ 293
New Zealand King Salmon Investments Limited	Sep-08	Food	Expansion	$ 828
CoDa Therapeutics Inc	Sep-08	Pharmaceutical	Start up	$ 555
*Earlier investment - various				$ 752
				$ 4,793

* Novotech; Clevedon Biosensors; Encoate; Karios

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

The current BPV company investment cost is $4.79 million (2011: $4.08 million), while the portfolio's current value is $3.87 million (2011: $3.57 million).

Most of the BPV investments are focused on early stage businesses, which by their nature are high risk. These early stage investments present Pohutukawa with potentially its main risk exposures, although as a percentage of the overall portfolio these are small. The likely success of these BPV investments is difficult to gauge and while some will succeed, others will not warrant further investment. Due to their large respective investment weightings the performances of NZP, NZKS, CoDa Therapeutics and Horizon Science will largely determine the success or failure of the BPV investment portfolio.

There have been eleven investments to date, since reduced to seven following realisations or exits.

The remaining investments include: New Zealand Pharmaceuticals; New Zealand King Salmon; 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 its kiwi-fruit based functional foods. These companies also represent the five largest investments in the BPV portfolio.

Directors' Report

For the year ended 31 December 2012

Directors holding office during the year and their remuneration

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

	Director 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 7* were recorded in the interest register of the company during the year.

The directors of Pohutukawa also have co-investment rights in the portfolio investments that are undertaken by Pohutukawa.

Table 7 - Directors' shareholdings (including relevant interests) and dealings in Pohutukawa & Pohutukawa co-investments at 31 December 2012.

Pohutukawa Director Investment Disclosure 31 December 2012 (Directors holding office as at 31 December 2012)				
Investment Holding	**J McDonald**	**M Prendergast**	**N J Craig**	**F Aldridge**
Including Relevant Interests				
	No. Securities	**No. Securities**	**No. Securities**	**No. Securities**
Pohutukawa a Private Equity	100,000		209,000	
NZ Pharmaceuticals Equity			16,119	4,341
NZ Pharmaceuticals Debt			5,024	1,352
Stratex Group Equity			18,363	
Rodd & Gunn Equity	6,912		6,559	
Rodd & Gunn Debt	691			
Shears & Mac Equity			158	
NZ King Salmon Equity	23,852		16,079	
NZ King Salmon Debt	61,427		8,192	
Fishpond Equity	282	282	176	

Director

3 April 2013

Date

Director

3 April 2013

Date

Statement of comprehensive income

For the year ended 31 December 2012

	Note	Consolidated 2012	Consolidated 2011	Parent 2012	Parent 2011
Interest income		822,895	1,159,915	818,213	1,159,285
Dividend income		282,266	382,635	-	-
Change in fair value of investments	*7(a)*	3,891,323	(1,543,893)	-	-
Gain/(Loss) on sale of investments	*7(c)*	1,403,106	(179,491)	-	(179,491)
Other operating income		288,101	116,600	613,748	190,083
Reversal of impairment of loans to investment companies		-	-	2,551,542	-
Impairment of loans to investment companies	*17(b)*	-	-	(4,438,472)	(5,656,575)
Administrative expenses	*5*	(1,207,138)	(1,357,839)	(1,206,941)	(1,245,379)
Operating profit/(loss) before tax		**5,480,553**	**(1,422,073)**	**(1,661,910)**	**(5,732,077)**
Income tax expense	*6*	(12,216)	-	-	-
Profit/(loss) for the year		5,468,337	(1,422,073)	(1,661,910)	(5,732,077)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income/(deficit) for the year		**5,468,337**	**(1,422,073)**	**(1,661,910)**	**(5,732,077)**
Attributable to:					
Equity holders of the parent		225,020	(214,635)	(1,661,910)	(5,732,077)
Non-controlling interest	*3a(iv)*	5,243,317	(1,207,438)	-	-
Profit/(loss) and total comprehensive income for the year attributable to the equity holders of stapled securities		**5,468,337**	**(1,422,073)**	**(1,661,910)**	**(5,732,077)**

Statement of changes in equity

For the year ended 31 December 2012

Consolidated	Share capital	Retained losses	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent				
Balance at 1 January 2012	41,734,006	(2,818,612)	38,915,394	4,717,915	43,633,309
Total comprehensive income for the year	-	225,020	225,020	5,243,317	5,468,337
Distributions to equity holders	-	(62,459)	(62,459)	(572,922)	(635,381)
Repayment of preference shares	(5,898,219)	-	(5,898,219)	(10,296,416)	(16,194,635)
Balance at 31 December 2012	**35,835,787**	**(2,656,051)**	**33,179,736**	**(908,106)**	**32,271,630**
Balance at 1 January 2011	41,734,006	(2,603,977)	39,130,029	7,133,682	46,263,711
Total comprehensive income for the year	-	(214,635)	(214,635)	(1,207,438)	(1,422,073)
Distributions to equity holders	-	-	-	(1,028,323)	(1,028,323)
Repayment of preference shares	-	-	-	(180,006)	(180,006)
Balance at 31 December 2011	**41,734,006**	**(2,818,612)**	**38,915,394**	**4,717,915**	**43,633,309**

Parent	Share capital	Retained losses	Total equity
Balance at 1 January 2012	41,734,006	(8,336,054)	33,397,952
Repayment of preference shares	(5,898,219)	-	(5,898,219)
Distributions to equity holders	-	(62,459)	(62,459)
Total comprehensive income for the year	-	(1,661,910)	(1,661,910)
Balance at 31 December 2012	**35,835,787**	**(10,060,423)**	**25,775,364**
Balance at 1 January 2011	41,734,006	(2,603,977)	39,130,029
Total comprehensive income for the year	-	(5,732,077)	(5,732,077)
Balance at 31 December 2011	**41,734,006**	**(8,336,054)**	**33,397,952**

Statement of financial position

As at 31 December 2012

		Consolidated		Parent	
	Note	2012	2011	2012	2011
Assets					
Loans to investment companies	*17(b)*	-	-	13,138,103	23,524,430
Receivables from investment companies	*17(b)*	-	-	1,317,293	1,008,280
Loans to portfolio companies	*8*	-	10,174,403	-	7,502,359
Investments – equity securities	*7*	19,282,490	28,718,831	-	-
Total non-current assets		**19,284,490**	**38,893,234**	**14,455,396**	**32,035,069**
Other receivables	*9*	63,148	536,855	47,159	307,201
Loans to portfolio companies	*8*	9,927,240	1,132,274	8,317,025	1,132,274
Cash and cash equivalents	*11*	3,059,514	3,176,810	3,059,514	3,176,810
Total current assets		**13,049,902**	**4,845,939**	**11,423,698**	**4,616,285**
Total assets		**32,332,392**	**43,739,173**	**25,879,094**	**36,651,354**
Equity					
Issued capital	*12*	35,835,787	41,734,006	35,835,787	41,734,006
Retained losses		(2,656,051)	(2,818,612)	(10,060,423)	(8,336,054)
Total equity attributable to equity holders of the parent		**33,179,736**	**38,915,394**	**25,775,364**	**33,397,952**
Non-controlling interest	*3a(iv)*	(908,106)	4,717,915	-	-
Total equity attributable to equity holders of stapled securities		32,271,630	43,633,309	25,775,364	33,397,952
Liabilities					
Advances from investment companies	*17(b)*	-	-	-	3,145,154
Trade and other payables	*13*	60,762	105,864	103,730	108,248
Total current liabilities		**60,762**	**105,864**	**103,730**	**3,253,402**
Total liabilities		**60,762**	**105,864**	**103,730**	**3,253,402**
Total equity and liabilities		**32,332,392**	**43,739,173**	**25,879,094**	**36,651,354**

For and on behalf of the Board

Director

3 April 2013

Date

Director

3 April 2013

Date

Statement of cash flows

For the year ended 31 December 2012

		Consolidated		Parent	
	Note	2012	2011	2012	2011
Cash flows from operating activities					
Management fees		288,101	116,600	288,101	116,600
Interest received		326,432	827,178	321,751	826,920
Dividends received		282,266	525,556	-	-
Income tax refunded		18,323	33,420	472	1,249
Income taxes paid		(11,285)	-	-	-
Cash paid to suppliers		(1,228,790)	(1,438,072)	(1,380,162)	(1,236,188)
Net cash from operating activities	*14*	**(324,953)**	**64,682**	**(769,838)**	**(291,419)**
Cash flows from investing activities					
Proceeds from sale of investments		14,844,916	180,009	-	336,347
Loans repaid by investment companies		-	276,392	8,914,980	-
Loans advanced to investment companies		-	-	(3,567,212)	(451,142)
Loans repaid by portfolio companies		2,194,103	253,273	1,265,593	-
Loans advanced to portfolio companies		(1,346)	-	(1,346)	(100,468)
Acquisition of investments		-	(72,709)	-	-
Net cash from investing activities		**17,037,673**	**636,965**	**6,612,015**	**(215,263)**
Cash flows from financing activities					
Loans/advances from investment companies		-	-	-	1,285,174
Repayment of preference shares		(16,194,635)	(180,006)	(5,898,219)	-
Distributions to equity holders		(635,381)	(1,028,323)	(61,254)	-
Net cash from financing activities		**(16,830,016)**	**(1,208,329)**	**(5,959,473)**	**-**
Net movement in cash and cash equivalents		(117,296)	(506,682)	(117,296)	(506,682)
Cash and cash equivalents at 1 January		3,176,810	3,683,492	3,176,810	3,683,492
Cash and cash equivalents at 31 December	*11*	**3,059,514**	**3,176,810**	**3,059,514**	**3,176,810**

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 13 (2011: 14) Investment Companies, (refer note 19), 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 2012 comprise the Company and 13 (2011: 14) 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 3 April 2013.

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. The financial statements also comply with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993. These financial statements also comply with the International Financial Reporting Standards.

(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
- Note 17(b) – Loans to investment companies (in parent)

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 13 (2011: 14) 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 13 (2011: 14) companies combining under the stapling arrangement are designated as the Investment Companies, (refer note 19), which invest in Portfolio Companies, (refer note 7).

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 unlisted associates, are carried at fair value in the consolidated financial statements and are not equity accounted (see accounting policy 3 b). This is due to the fact that the parent and group are private equity investors.

(iii) Transactions eliminated on consolidation

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

(iv) 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 designated at fair value through profit or loss financial assets and presented as non-current assets in the statement of financial position. They are stated at fair value, with any resultant change in fair value recognised in the profit or loss.

Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Groups investment strategy. Regular purchases and sales of investments are recognised on a trade-date basis. 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 amortised cost less impairment losses (see accounting policy f).

(d) Loans receivable

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

(e) 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.

(f) 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 l), 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 profit or loss.

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

(g) Share capital

(i) Preference share capital

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(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.

(h) 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 profit or loss over the period of the borrowings on an effective interest rate basis.

(i) Trade and other payables

Trade and other payables are stated at cost.

(j) Revenue

(i) Services rendered

Revenue from services rendered (e.g. management fees and transaction fees) are recognised in profit or loss 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 profit or loss. Dividend income is recognised in profit or loss on the date the entity's right to receive payments is established.

(iii) Interest income

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

(k) Income tax

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

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

Deferred tax is calculated, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, 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.

(l) Goods and services tax (GST)

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

(m) New standards and pronouncements relevant to the Group

A number of new or revised standards are not effective for the period ended 31 December 2012, and have not been applied in preparing these financial statements. Those that are applicable to the Group are:

- NZ IFRS 9 – 'Financial Instruments: Classification and Measurement' – effective 1 January 2015. This standard simplifies how an entity should classify and measure financial assets.
- NZ IFRS 10 – 'Consolidated Financial Statements' – effective for periods beginning on or after 1 January 2013. This standard gives a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. Control is reassessed as facts and circumstances change.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

- NZ IFRS 11 – 'Joint Arrangements' – effective for periods beginning on or after 1 January 2013. This standard focuses on the rights and obligations of joint arrangements, rather than the legal form.
- NZ IFRS 12 – 'Disclosure of Interests in Other Entities – effective for periods beginning on or after 1 January 2013. This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements and associates. The aim is to provide information to enable users to evaluate the nature of risks associated with an entities interests in another entity, and the effects of those interests on the entities financial performance, position and cash flows.
- NZ IFRS 13 – 'Fair Value Measurement' – effective 1 January 2013. This revised standard defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.
- NZ IAS 27 – 'Separate Financial Statements' – effective 1 January 2013. The main changes the amended IAS 27 will make to existing requirements are:
  - Partial acquisitions. Non-controlling interests are measured either as their proportionate interest in the net identifiable assets (which is the original IFRS 3 requirement) or at fair value.
  - Step acquisitions. The requirement to measure at fair value every asset and liability at each step for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired.
  - Acquisition-related costs. Acquisition related costs are generally recognised as expenses (rather than included in goodwill).
  - Contingent consideration. Contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in profit or loss (rather than by adjusting goodwill).
  - Transactions with non-controlling interests. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions.
- NZ IAS 28 – 'Investments in Associates and Joint Ventures' – effective 1 January 2013. The amended standard makes changes including on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.

The Group does not plan to early adopt these standards and management have not yet determined the impact of these changes.

There are a number of other standards and interpretations which are not yet effective and management consider they will have no impact on the Group.

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 Limited (see Note 7).

5. Administrative expenses

	Consolidated		Parent	
	2012	2011	2012	2011
Management fees	986,499	1,132,800	986,499	1,016,200
Advisory fees	5,111	7,521	5,111	7,521
Directors' fees	100,000	100,000	100,000	100,000
Other administrative expenses	115,528	117,518	115,331	121,658
	1,207,138	**1,357,839**	**1,206,941**	**1,245,379**

The following items of expenditure are included in administrative expenses:

Auditor's remuneration to KPMG comprises:				
Audit of financial statements	35,000	37,500	35,000	37,500
Other audit-related services	8,880	18,726	8,880	18,726

Other audit related services include review of interim financial statements.

Notes to the consolidated financial statements

6. Income tax expense

	Note	Consolidated 2012	Consolidated 2011	Parent 2012	Parent 2011
Income tax expense in statement of comprehensive income		12,216	-	-	-
Reconciliation of effective tax rate					
Profit before tax		5,480,553	(1,422,073)	(1,661,910)	(5,732,077)
Income tax expense at 28% tax rate		1,534,555	(398,180)	(465,335)	(1,604,982)
Non-assessable income		(1,482,539)	-	-	-
Non-deductible expenses		517	480,485	528,858	1,634,098
Imputation credits received		(79,034)	(107,138)	-	-
Prior period adjustment		11,011	-	-	-
Tax (profit)/losses not recognised	*10*	27,706	24,833	(63,523)	(29,116)
Total income tax expense in statement of comprehensive income		**12,216**	-	-	-

Imputation credits

	2012	2011
Imputation credits available to shareholders of the parent company in subsequent reporting periods:		
Through the parent company	-	10,147
Through investment companies	41,913	199,914
	41,913	**210,061**

Notes to the consolidated financial statements

7. Investments – equity securities

a) Non-current investments

The Group has a number of investments in unlisted equity securities. The performance of these securities is actively monitored and group policy is to carry these investments at fair value with subsequent movements in fair value recognised in the profit or loss. 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 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.

b) Sensitivity analysis

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by $1,105,964 (2011: $1,641,214).

A movement in the adjustment factor of 5% changes the value of the investments by $2,570,216 (2011: $3,733,884).

A movement in the maintainable earnings of 5% changes the value of the investments by $2,056,173 (2011: $3,179,373).

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

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

2012

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.6%	4,775,157
BioPacificVentures	Private equity vehicle*	Various	*	3,118,177
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812
Shears & Mac Limited	Manufacturing	Jun 2008	15.7%	1,990,295
Rodd & Gunn NZ Limited and Rodd & Gunn Australia Limited	Retail	Aug 2008	11.9%	2,590,481
New Zealand King Salmon Investments Limited	Food	Sep 2008	10.8%	2,721,682
Fishpond Limited	Online retail	Oct 2009	4.4%	772,348
				19,566,952

* 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 and NZP Holdings Limited (both also held directly), Horizon Science Pty Limited, Vital Food Processors Limited, Rissington Breedline Limited and CoDa Therapeutics Inc. Pohutukawa Alpha has an 11% share in all investments made by the fund, but the holdings in each of the portfolio companies vary.

Notes to the consolidated financial statements

7. Investments – equity securities (continued)

2011

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.8%	4,775,157
BioPacificVentures	Private equity vehicle*	Various	*	2,984,859
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	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	10.9%	2,590,481
New Zealand King Salmon Investments Limited	Food	Sep 2008	10.8%	2,721,682
Fishpond Limited	Online retail	Oct 2009	4.4%	772,348
				27,004,520

* Refer comment following 2012 table in page 27.

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 2012 was $19,282,490 (2011: $28,718,831).

c) Gain / (Loss) on sale of investments

The sale of the investment in GoBus Holdings Limited resulted in the net gain on sale of $1,403,106 for the year ended 31 December 2012 (2011: $179,491 loss – Triton Hearing Clinics Limited). This has been recognised as a gain/(loss) in the Statement of Comprehensive Income.

Notes to the consolidated financial statements

8. Loans to portfolio companies

	Consolidated		Parent	
	2012	2011	2012	2011
New Zealand King Salmon Investments Limited	8,062,202	7,115,565	8,062,204	7,115,565
Rodd & Gunn NZ Limited	119,377	119,377	119,377	119,377
NZP Holdings Limited	1,610,217	2,672,044	-	-
Horizon Science Pty Limited	109,193	109,193	109,193	109,193
Rissington Breedline Limited	26,251	24,905	26,251	24,905
CoDa Therapeutics Inc	-	133,319	-	133,319
Hamilton City Bus Depot Limited	-	138,994	-	138,994
GoBus Holdings Limited	-	993,280	-	993,280
	9,927,240	**11,306,677**	**8,317,025**	**8,634,633**

Represented by	2012	2011	2012	2011
Non-current assets	-	10,174,403	-	7,502,359
Current assets	9,927,240	1,132,274,	8,317,025	1,132,274
	9,927,240	**11,306,677**	**8,317,025**	**8,634,633**

The following loans are either repayable on demand or expire within 12 months.

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 $6,382,110 as a loan at an interest rate to be reviewed from time to time, currently nil% (2011: 15%). The terms of the loan enable New Zealand King Salmon, at its option, to capitalise the loan and interest into equity. As of September 2012 the interest rate reduced from 15% to nil.

During 2012, interest income of $946,639 (2011: $946,638) was capitalised to a new loan. There were no repayments during the reporting period (2011: $776,243).

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% (2011: $119,377, 7.73%). The terms of the loan enable Rodd & Gunn, at its option, to capitalise the loan and interest into equity.

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 % (2011: $3,202,658, nil%). At the end of the reporting period $1,592,441 had been repaid in total (2011: $530,613).

Notes to the consolidated financial statements

8. Loans to portfolio companies (continued)

Horizon Science Pty Limited

In March 2010 Horizon Science Pty Limited (investment held by Pohutukawa Alpha Investments Limited) was advanced $109,193, at an interest rate of nil % (2011: $109,193, nil%). There were no repayments during the reporting period (2011:$nil).

Rissington Breedline Limited

During 2009 Rissington Breedline Limited (investment held by Pohutukawa Alpha Investments Limited) was advanced $17,039, and during 2011 a further $7,866 at an interest rate of nil %. There were no repayments during the reporting period (2011: $nil).

9. Other receivables

	Consolidated		Parent	
	2012	2011	2012	2011
Income tax receivable	10,727	29,981	15	10,147
Prepayments	10,143	9,917	10,143	9,917
Other receivables	42,278	496,957	37,001	287,137
	63,148	**536,855**	**47,159**	**307,201**

As at 31 December 2012, no receivables are considered past due. (2011: nil).

10. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

		Consolidated		Parent	
	Note	2012	2011	2012	2011
Opening balance 1 January		440,982	408,704	382,182	668,880
Tax (profit)/loss not recognised	6	27,706	24,833	(63,523)	(29,116)
Prior period adjustment		-	7,445	-	(257,562)
Closing balance 31 December		**468,688**	**440,982**	**318,659**	**382,182**

Due to the nature of the stapled securities and the fact that ordinary shares in the Investment Companies are owned by Pohutukawa I Investment Holdings LP, 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.

Notes to the consolidated financial statements

11. Cash and cash equivalents

	Consolidated		Parent	
	2012	2011	2012	2011
Call deposits	426,390	591,500	426,390	591,500
Short-term deposits	2,633,124	2,585,310	2,633,124	2,585,310
Cash and cash equivalents in the statement of cash flows	**3,059,514**	**3,176,810**	**3,059,514**	**3,176,810**

Call deposits are held with ANZ Bank New Zealand Limited (2011: National Bank of New Zealand Limited) via CIP Cash Management Nominees Limited. The weighted average interest rate for 2012 on call deposits was 2.94% (2011: 2.98%).

Short-term deposits are held with ANZ Bank New Zealand Limited (2011: National Bank of New Zealand Limited). The weighted average interest rate on short-term deposits is 3.81% (2011: 4.12%).

12. Share capital

Consolidated	Investment Co's Preference shares		PPE Ordinary shares		PPE Preference shares	
In millions of shares	2012	2011	2012	2011	2012	2011
On issue at 1 January	742	742	53	53	4,198	4,198
Redemption and cancellation of shares	(53)	-	-	-	(590)	-
On issue at 31 December	**689**	**742**	**53**	**53**	**3,608**	**4,198**

Parent	Ordinary shares		Preference shares	
In millions of shares	2012	2011	2012	2011
On issue at 1 January	53	53	4,198	4,198
Redemption of shares	-	-	(590)	-
On issue at 31 December	**53**	**53**	**3,608**	**4,198**

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

At 31 December 2012, the share capital of the Company comprised 53,000,000 ordinary shares (2011: 53,000,000), and 3,608,579,000 preference shares (2011: 4,198,400,900). In addition, there are 689,000,000 (2011: 742,000,000) preference shares in the 13 (2011: 14) Investment Companies (53,000,000 in each).

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.

Notes to the consolidated financial statements

12. Share capital (continued)

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. Dividends of $635,381 were declared during the year by companies within the Group (2011: 1,028,323). 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.

13. Trade and other payables

	Consolidated		Parent	
	2012	2011	2012	2011
Directors fees payable	25,000	26,125	25,000	26,125
GST payable	-	-	42,966	-
Non-trade payables and accrued expenses	35,762	79,739	35,764	82,123
	60,762	**105,864**	**103,730**	**108,248**

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

	Consolidated		Parent	
	2012	2011	2012	2011
Profit/(loss) for the year	5,469,542	(1,422,073)	(1,661,910)	(5,732,077)
Adjustments for:				
Change in fair value of investments	(3,891,323)	1,421,541	-	-
Interest capitalised	(923,146)	(1,269,763)	(923,146)	(1,269,763)
Capitalised interest received	-	776,243	-	776,243
Impairment of loans from investment companies	-	-	1,886,931	5,656,576
(Gain)/Loss on sale of investments	(1,403,106)	301,843	-	176,018
Change in trade and other receivables	454,452	175,373	251,905	49,851
Change in income tax receivable	18,049	33,420	10,132	1,249
Change in trade payables and accruals	(49,421)	48,098	(333,750)	50,484
Net cash flow from operating activities	**(324,953)**	**64,682**	**(769,838)**	**(291,419)**

Notes to the consolidated financial statements

15. Financial risk management

Introduction and overview

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

- equity price risk
- credit risk
- interest rate risk
- liquidity risk

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

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 no significant concentrations of credit risk, other than those detailed in Note 8.

The Group invests its surplus funds in short-term deposits with ANZ Bank New Zealand Limited (2011: National Bank of New Zealand Limited) (See Note 11). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position.

Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business from bank accounts, 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. While these loans are payable on demand, they are not expected to be called within the next 12 months and are therefore classified as non-current.

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 2012 is 3.00% (2011: 2.98%), short-term deposits for 2012 is 3.67% (2011: 4.12%), and loans advanced to portfolio companies which the Investment Companies hold an ownership interest in is a weighted average of 0.09% (2011: 9.25%).

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

Notes to the consolidated financial statements

15. Financial risk management (continued)

Liquidity risk

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

Interest rate risk – repricing analysis

	Note	Total	Non interest bearing	6 months or less
Consolidated 2012				
Cash and cash equivalents	*11*	3,059,514	-	3,059,514
Loans to portfolio companies	*8*	9,927,240	119,377	9,807,863
Total		**12,986,752**	**119,377**	**12,867,375**
Consolidated 2011				
Cash and cash equivalents	*11*	3,176,810	-	3,176,810
Loans to portfolio companies	*8*	11,306,677	-	11,306,677
Total		**14,483,487**	-	**14,483,487**
Parent 2012				
Cash and cash equivalents	*11*	3,059,514	-	3,059,514
Loans to portfolio companies	*8*	8,317,025	119,377	8,197,648
Total		**11,376,539**	**119,377**	**11,257,162**
Parent 2011				
Cash and cash equivalents	*11*	3,176,810	-	3,176,810
Loans to portfolio companies	*8*	8,634,633	-	8,634,633
Total		**11,811,443**	-	**11,811,443**

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 2012 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 $26,559 (2011: $16,611) over a one-year period.

At 31 December 2012 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 $86,952 (2011: $162,620) 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 year.

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 2012						
Assets						
Cash and cash equivalents	*11*	-	3,059,514	-	3,059,514	3,059,514
Investments in equity securities	*7*	19,282,490	-	-	19,282,490	19,282,490
Loans to portfolio companies	*8*	-	9,927,240	-	9,927,240	9,927,240
Other receivables	*9*	-	42,278	-	42,278	42,278
Total assets		**19,282,490**	**13,029,032**	-	**32,311,522**	**32,311,522**
Liabilities						
Trade and other payables	*13*	-	-	60,762	60,762	60,762
Total liabilities		-	-	**60,762**	**60,762**	**60,762**

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Consolidated 2011						
Assets						
Cash and cash equivalents	*11*	-	3,176,810	-	3,176,810	3,176,810
Investments in equity securities	*7*	28,718,831	-	-	28,718,831	28,718,831
Loans to portfolio companies	*8*	-	11,306,677	-	11,306,677	11,306,677
Other receivables	*9*	-	496,957	-	496,957	496,957
Total assets		**28,718,831**	**14,980,444**	-	**43,699,275**	**43,699,275**
Liabilities						
Trade and other payables	*13*	-	-	105,864	105,864	105,864
Total liabilities		-	-	**105,864**	**105,864**	**105,864**

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 2012						
Assets						
Cash and cash equivalents	*11*	-	3,059,514	-	3,059,514	3,059,514
Loans to investment companies	*17*	-	13,138,103	-	13,138,103	13,138,103
Loans to portfolio companies	*8*	-	8,317,025	-	8,317,025	8,317,025
Receivables from investment companies		-	1,317,293	-	1,317,293	1,317,293
Other receivables	*9*	-	37,001	-	37,001	37,001
Total assets		-	**25,868,936**	-	**25,868,936**	**25,868,936**
Liabilities						
Trade and other payables	*13*	-	-	60,764	60,764	60,764
Total liabilities		-	-	**60,764**	**60,764**	**60,764**

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Parent 2011						
Assets						
Cash and cash equivalents	*11*	-	3,176,810	-	3,176,810	3,176,810
Loans to investment companies	*17*	-	23,524,430	-	23,524,430	23,524,430
Loans to portfolio companies	*8*	-	8,634,633	-	8,634,633	8,634,633
Receivables from investment companies		-	1,008,280	-	1,008,280	1,008,280
Other receivables	*9*	-	287,137	-	287,137	287,137
Total assets		-	**36,631,290**	-	**36,631,290**	**36,631,290**
Liabilities						
Loans from related parties	*17*	-	-	3,145,154	3,145,154	3,145,154
Trade and other payables	*13*	-	-	108,248	108,248	108,248
Total liabilities		-	-	**3,253,402**	**3,253,402**	**3,253,402**

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 2012	Level 1	Level 2	Level 3	Total
Investments	-	-	19,282,490	19,282,490

31 December 2011	Level 1	Level 2	Level 3	Total
Investments	-	-	28,718,831	28,718,831

There have been no transfers between levels 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	2012	2011
Opening balance	28,718,831	30,967,559
Total gains or (losses):		
Change in fair value	3,891,323	(1,543,893)
Gain/(Loss) on disposal	1,403,106	(179,491)
Investments at cost during the year	133,318	34,604
Divestments	(14,864,088)	(559,948)
Closing balance	**19,282,490**	**28,718,831**

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	2012	2011
Total gains or losses included in profit or loss for the year	5,294,429	(1,723,384)
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	4,024,036	(1,543,893)

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

The Group has a commitment to invest a total of $5,300,000 with BioPacificVentures Limited (BPV). These funds are called by BPV as required and as at 31 December 2012 $367,590 remained uncalled (2011: $419,405).

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 a pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 31 December 2012 the earnout payment is calculated as $7.39m (2011: $6.16m), however this calculation is based on unrealised portfolio company fair value valuations of $19.3m (2011: $28.7m) and loans receivable of $9.9m (2011: $11.3m) 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 to investors 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, as the administration manager, and Direct Capital Limited, as the investment manager, own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited. The apportionment of the management fee and any earnout fee reflect the relative contributions of each party. Craigs Investment Partners Limited and Direct Capital III Investment Partners LP are limited partners in Pohutukawa I Investment Holdings LP which is the holder of ordinary shares in the Investment Companies. Certain directors of the Company and the Investment Companies are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital Limited.

Direct Capital Limited is responsible for preparing valuations of investments.

b) Transactions with related parties

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

- Management fees paid to Pohutukawa Management Limited totalled $986,499 (2011: $1,021,087).
- Legal and accounting expenses of $1,847 were incurred by Direct Capital Limited during 2012. (2011: Nil)
- Surplus cash has been invested in ANZ Bank New Zealand Limited (2011: the National Bank of New Zealand) via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Receivables from Investment Companies were $1,317,293 at the end of the year (2011: $1,008,280)

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.

Notes to the consolidated financial statements

17. Related parties (continued)

Total Pohutukawa Private Equity parent company loans to the Investment Companies as at 31 December 2012 were $13,138,103 (2011: $23,524,430). Loans to investment companies are non-interest bearing and are used to acquire long-term equity investments. Loans are repayable on demand.

Loans have been impaired in the parent financial statements in the current year, where the value of the investment held by the Investment Companies is less than the cost of the investment. During the year there has been further impairment of $4,438,472 (2011: $5,656,575) less $2,551,542 of impairment incurred in previous periods being reversed. This does not affect the consolidated financial statements.

Advances from Investment Companies to the parent company as at 31 December 2012 were $nil (2011: $3,145,154). Advances are interest free and not payable until called by the investment companies.

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

c) Transactions with key management personnel

	Consolidated		Parent	
	2012	2011	2012	2011
Directors fees (total remuneration)	100,000	100,000	100,000	100,000

The balance owing to key management personnel at 31 December 2012 is $25,000 (2011: $25,000).

18. Subsequent events

There were no material subsequent events for the Company and Group.

Notes to the consolidated financial statements

19. Group entities

Investment Companies	Country of incorporation	Ownership interest* 2012	2011
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 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.

Independent auditor's 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 subsidiaries, on pages 17 to 41. The financial statements comprise the statements of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

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 trading restrictions on dealings which partners and employees of our firm have with the company and group. These matters have not impaired our independence as auditor 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 on pages 17 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 group as at 31 December 2012 and of the financial performance and cash flows of the company and the group for the year then ended.

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 as far as appears from our examination of those records.

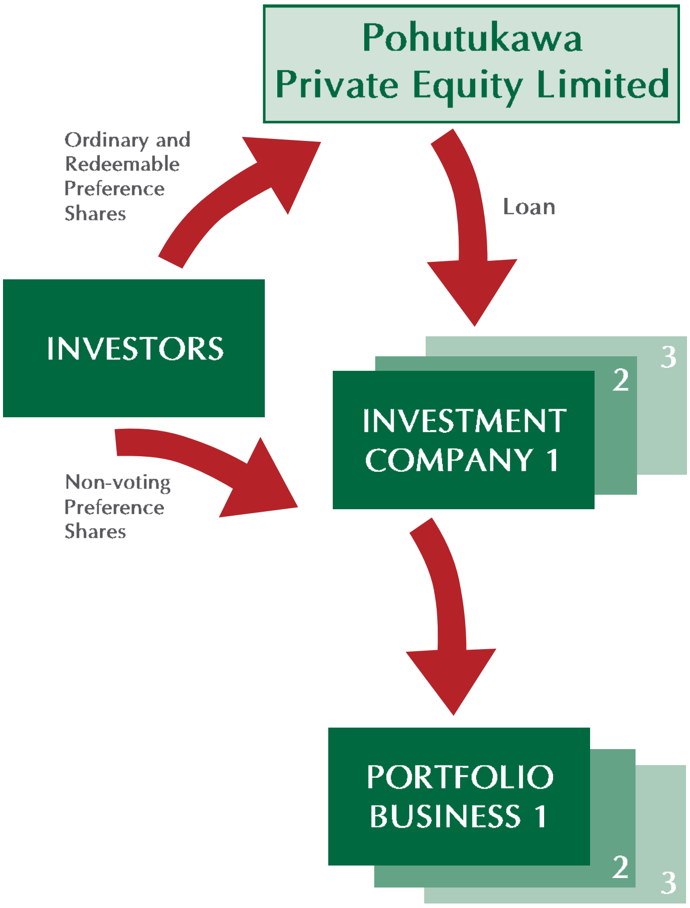
KPMG.

3 April 2013
Tauranga

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 thirteen special purpose vehicles (investment companies), which invest 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.

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 (Direct Capital and Craigs Investment Partners), through Pohutukawa I Investment Holdings Limited Partnership holds all the ordinary voting shares in each of the Investment Companies and exercises these rights in accordance with the Pohutukawa investment policy and investment criteria.

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 Directors of each Investment Company can be appointed or removed only by the limited partners.

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 shareholder meetings of Pohutukawa.

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.

The Pohutukawa Board

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

JOHN MCDONALD
(Chairman and Independent Director)

John is a Company director and trustee with more than 30 year's experience in executive and management positions with the former Fletcher Challenge group of companies through to his retirement in 2001. 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 Horizon Energy Distribution Limited and he is Chairman of both Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited. John was previously a director of Air New Zealand for 9 years.

MAURICE JOHN PRENDERGAST
(Independent Director)

Maurice is currently a director of Pumpkin Patch Limited. He was previously CEO of Pumpkin Patch, a position he held from 1993 to 2011. 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 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 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 a director of Pohutukawa Private Equity Limited and 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 Limited and Pohutukawa Private Equity II Limited and is on the board of a number of Craigs Investment Partners subsidiaries.

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 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 fees.

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

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

Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY LIMITED

John McDonald
Neil Craig
Maurice Prendergast
Frank Aldridge

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

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