Pohutukawa

PRIVATE EQUITY LIMITED

ANNUAL REPORT

For the period ending 31 December 2009

Contents

Report to Shareholders

Dear Shareholder

I am pleased to present Pohutukawa's 2009 annual report. Markets began to turn in 2009 off the "global credit crisis" lows and 2009 proved to be a hard fought and successful one for our Portfolio Companies enabling Pohutukawa to produce another sound result.

Highlights included new or follow-on investments of $3.17 million and further shareholder distributions of 18.8 cents per share, equivalent to $9.97 million.

Investments made during 2009 were:	**$000's**
• New Zealand Pharmaceuticals (Dextra investment)	$632
• Go Bus follow-on investment	$1491
• Higgins Road (Go Bus depot)	$199
• Rodd & Gunn follow-on investment	$119
• *Fishpond Limited	$593
• BioPacificVentures (BPV) follow-on investments	$136

*Fishpond was the final new direct investment completing the Pohutukawa investment portfolio. Pohutukawa's remaining cash reserves are earmarked for follow-on investment commitments to the existing portfolio companies and to BPV.

The total value of investments (excluding cash) at the end of the financial period was $42.68 million.

Portfolio Company Realisations

During the period the Express Logistics management and shareholders agreed to the sale of the business which provided a total return of 3.8x the original investment based on a final estimated $9.5 million realisation, pre any legal or warranty claims. At 31 December 2009 Express Logistics had a residual realisable value of $1.15 million. A further distribution of $901k was made in March 2010 and there will be a final small wash-up distribution once the company has met all its obligations and is wound up.

Distributions

Distributions totalled $9.97 million for 2009. The Express sale enabled Pohutukawa to distribute $8.36 million during the period to 31 December 2009 plus a further $901k subsequent to the period end as mentioned under Company Realisations.

During the period to 31 December 2009 we also paid a final capital distribution from IFL/Gluck following its wind-up, a final capital distribution from Innovair, plus dividends from Stratex Group (Paper Coaters), NZ King Salmon and NZ Pharmaceuticals.

A breakdown of the distributions for the period are shown in table 1 below:

Table 1

Portfolio Company Distributions during 2009 - (net cash)

Portfolio Company	Return	Amount	PPE cents per share	Paid
Innovair	Capital	$ 900,303	1.70	5-Jun-2009
IFL-Gluck	Capital	$ 37,451	0.07	5-Jun-2009
Stratex Group (Paper Coaters)	Dividend	$ 125,606	0.24	5-Jun-2009
Express	Capital	$ 7,141,047	13.47	16-Dec-2009
Express	Dividend	$ 1,206,830	2.28	16-Dec-2009
NZ Pharmaceuticals	Dividend	$ 413,500	0.78	16-Dec-2009
NZ King Salmon	Dividend	$ 140,392	0.26	16-Dec-2009
Total Distributions-Net		$ 9,965,129	18.80	

Report to Shareholders

Pohutukawa has now returned all Innovair sales proceeds to Pohutukawa shareholders. This included the early release of $703k in June 2009, being part of the $900k shown in Table 1. The $703k was held in escrow and subject to a 2-year warranty period through until May 2010. Pohutukawa paid this to shareholders from existing cash resources and when these funds are released in May 2010 this amount will be held in Pohutukawa.

Other

NZ King Salmon also attributed interest of $842k to Pohutukawa, being interest on a shareholder loan. This interest was capitalised onto the loan, which now stands at $6.678 million.

Investor Return to Date

Table 2 shows shareholders total dollar return to 31 December 2009 from their original $1 investment.

Table 2

Investors Return to 31-12-2009	
Original investment	$ 1.00
Distribution December 2007	0.33
Distribution November 2008	0.08
Distribution June 2009	0.02
Distribution December 2009	0.17
Assessed Net Asset Value 31-12-09	0.92
	$ 1.52
Return	1.5x

New Investments

Fishpond

During October 2009 Pohutukawa and Direct Capital took a minority shareholding in online retailer Fishpond Limited.

Fishpond is Australasia's largest local online retailer, offering a selection of over 2.9 million books, 315,000 CDs and DVDs, as well as a wide selection games, gaming consoles, and toys.

Fishpond was launched in January 2004 by Daniel Robertson, who rapidly grew the New Zealand business before the launch of the highly successful Australian website in 2005. The Company operates from a distribution centre in Auckland, has approximately 50 employees and services both the Australian and New Zealand markets from its www.fishpond.co.nz and www.fishpond.com.au websites.

Current Investments

A summary of our current investments is set out in the following chart.

Report to Shareholders

***Chart 1** - The following chart shows each investment as a percentage of the total investment portfolio (at market values assessed 31-12-09) and cash available for investment at 31 March 2010:*

Pohutukawa Investments 31 March 2010

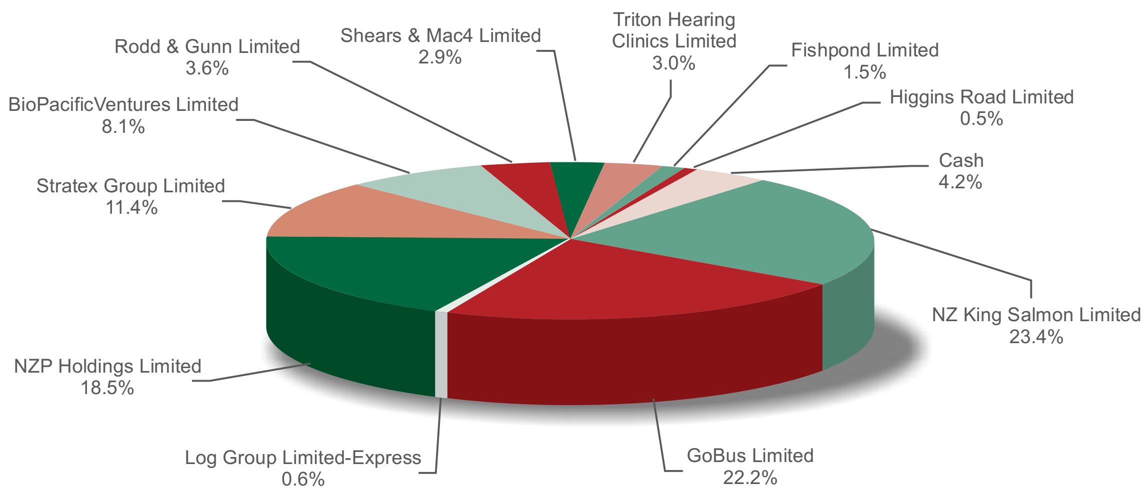
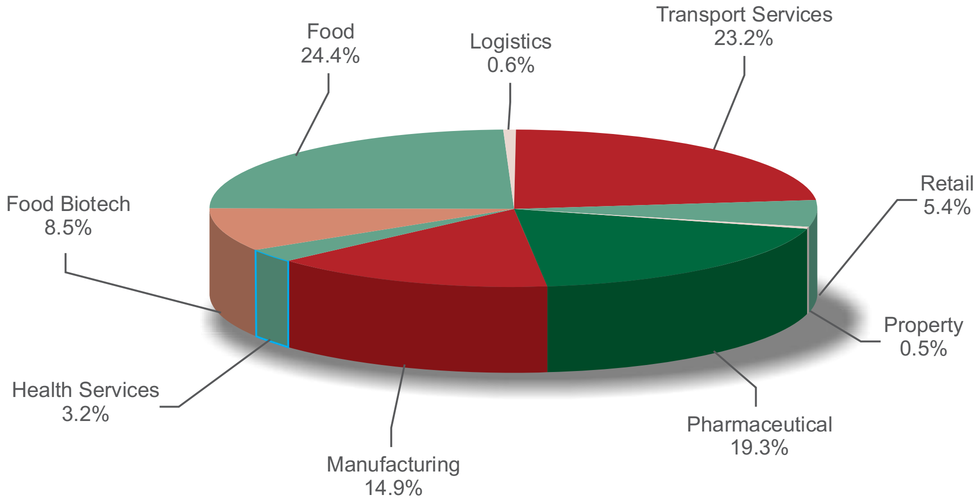


Chart 2 – Our Industry Exposure in Percentage Terms is:

Industry Exposure as at 31 March 2010



Investment Revaluations

The Manager revalues the portfolio at the end of each quarter. Under the private equity body AVCAL guidelines, (The Australian Private Equity & Venture Capital Association) this revaluation is completed for all portfolio companies, including investments made in the last 12 months. This is a change from the previous revaluation policy where investments were shown at cost for the first 12 months and revalued quarterly thereafter.

At 31 December 2009 the Manager, using the AVCAL valuation guidelines, revalued all investments at $42.68 million.

Report to Shareholders

Table 3 below shows the cost value of the investments at 31 December 2009 of $34.9 million which compares to the AVCAL based valuation of the investment portfolio at $42.68 million, giving a value uplift of 22.3%. The revaluations are based on the respective portfolio company financial performances to 31 December 2009.

Portfolio Companies Performance and Outlook

2009 continued to prove challenging for our portfolio companies. They have all in some way been impacted by the global financial crisis, but overall the portfolio has shown pleasing resilience. The portfolio valuation at December 2009 has held up well and does evidence a gradual improvement in the business performances, although some may take longer to return to their previous performance levels, which is understandable in this uncertain economic environment.

Some of the companies are already well positioned to take advantage of investment opportunities as we have seen with New Zealand Pharmaceutical's UK acquisition of Dextra Laboratories.

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

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

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

Table 3

Schedule of Investments at Cost to 31 December 2009	Date of Investment	Industry	Stage	Total Investment at cost (NZ$000)	PPE Shareholding %
Direct Investments					
NZP Holdings Limited	Nov 05	Pharmaceutical	Pre IPO	$ 4,775	15.80
Triton Hearing Clinics Limited	Nov 06	Health Services	Expansion	$ 1,450	18.70
Stratex Group Limited	May 07	Manufacturing	MBO	$ 3,599	32.80
GoBus Limited	Dec 07	Transport Services	MBO	$ 7,510	32.90
Higgins Road Limited	Dec 09	Property		$ 199	17.30
Shears & Mac4 Limited	May 08	Manufacturing	Expansion	$ 1,990	18.10
Rodd & Gunn Limited	Jul 08	Retail	Expansion	$ 2,710	11.90
New Zealand King Salmon Limited	Sep 08	Food	Expansion	$ 8,558	11.60
Fishpond Limited	Oct 09	Retail	Expansion	$ 593	3.50
Total Direct Investments				**$ 31,384**	
Express Logistics Group Limited	Oct 05	Logistics	MBO	sold with residual value	19.70
Innovair Group Limited	Aug 07	Consumer Goods	Expansion	sold with residual value	11.30
BioPacificVentures Investments		Food Biotech		**$ 3,583**	
Total Cost of Current Pohutukawa Investments				**$ 34,967**	

MBO = Management Buy Out   Pre IPO = Preparing to be listed on the NZX   Expansion = Business in growth mode
Early = Early stages of commercialisation, either for the company or a particular product

Report to Shareholders

Annual Financial Statements 31 December 2009

Our financial statement for the year ended 31 December 2009, Directors' Report and KPMG Audit Report are included in this annual report

As at 31 December 2009 Pohutukawa had 53 million stapled securities on issue, fully paid to $1.

At balance date shareholders' funds were $48.6 million. This demonstrates Pohutukawa's strong financial position and we carry no debt.

Assets comprised:

- Investments $42.6 million
- Cash $5.0 million
- Receivables $1.0 million

Investments included revaluations of the portfolio on 31 December 2009, under the fair value method.

The other receivables figure included the final Innovair payment of $703k due for release in May 2010, NZ King Salmon interest accrued of $271k and $30k term deposit interest accrued.

The item minority interest in the balance sheet 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 minority interests are attributable to the parent company/Pohutukawa shareholders as a result of their investment in the preference shares of the Investment Companies.

Income was derived from interest $1.45 million (mainly from the NZ King Salmon loan) and dividend income of $1.9 million.

The positive change in fair value of investments was $4.4 million.

Operating expenses were $1.5 million, a decrease of 20% on the pcp although last year included borrowing costs.
Of the total operating expenses management fees were $1.07 million. ($1.19 million in 2008), in line with the lower level of invested capital.

The profit for the period was $6.58 million, compared to $3.71 million in 2008. This period's result was influenced by the sale of Log Group (Express Logistics).

Table 4 below shows Pohutukawa's Performance Summary.

Table 4

Pohutukawa Financial Performance Summary
For the year ended 31 December 2009

		2009 $000	2008 $000
Operating Results			
Interest income		1,449	596
Dividend income		1,908	276
Other income		304	199
Change in fair value of investments		4,418	4,535
Operating expenses		-1,498	-1,895
Profit after tax		6,581	3,711
Share performance			
Stapled Securities on issue	$1.00	53,000,000	53,000,000
Earnings per share		$0.12	$0.07
Net asset backing-cents per share		$0.92	$0.98

The Manager

One of the roles of the Pohutukawa Board is to review the Manager's performance. This review was undertaken at the end of 2009. 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.

Report to Shareholders

Follow-on Investment Prospects

Pohutukawa is now fully invested and the remaining capital will be applied to follow-on portfolio company investments.

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

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

Secondary Market

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

The last sale price on 31 March 2010 was 90 cents while the net asset backing was around 86 cents per share at this date. (Note: this asset backing is calculated prior to any performance fee payable to the Manager - see note 16 in the Accounts).

Annual Shareholders Meeting

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

- **Date:** Wednesday, 19 May 2010
- **Time:** 2.30pm
- **Place:** Craigs Investment Partners Limited, Level 32, Vero Centre, 48 Shortland Street, Auckland
- **RSVP:** Contact Peter Lalor on 07 5774 727 or enquiries@pohutukawafund.co.nz by 7 May 2010.

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

Thank you for your ongoing support of Pohutukawa and I trust that you are satisfied with Pohutukawa's performance through the 2009 period.

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

Yours sincerely,
POHUTUKAWA PRIVATE EQUITY LIMITED

John McDonald
Chairman

Manager's Report on Portfolio Companies

Portfolio Performance Summary

The Manager is pleased to report the positive financial performance of the portfolio companies over the twelve-month period to 31 December 2009. This performance is reflected in increased interest and dividend income, other operating income and changes in fair value of investments as detailed in the Income Statement for the year. The total return from these items for the full year to 31 December 2009 was $8.08 million compared to $5.6 million for the prior period.

As highlighted in Chart 2 the portfolio offers a wide spread of industry exposure. At 31 December 2009 all portfolio companies were trading profitably.

Individual performance and prospects are highlighted in the portfolio company summaries that follow. We are more optimistic in the outlook for 2010. Operational performance and follow-on investment opportunities will remain a focus.

Given the current environment the Manager has encouraged each portfolio company to look ahead, see the opportunities and act on them. It is pleasing to see the benefits of this strategy and the follow on investments made by Pohutukawa during the year. Our management partners are to be congratulated on the financial and strategic results from each company during the year.

The table below provides a ranking of the portfolio companies according to their weighting as a percentage of their combined portfolio value.

Table 5 *Portfolio Companies Ranking*

Company by Ranking 31 December 2009	As a % of Portfolio at Current Values
Investments	
New Zealand King Salmon Limited	23.9%
GoBus Limited	22.7%
NZP Holdings Limited	18.9%
Stratex Group Limited	11.7%
BioPacificVentures Limited	8.3%
Rodd & Gunn Limited	3.7%
Triton Hearing Clinics Limited	3.1%
Shears & Mac4 Limited	2.9%
Express Logistics Group Limited	2.7%
Fishpond Limited	1.6%
Higgins Road Limited	0.5%
Total Pohutukawa Investments	**100%**

Manager's Report on Portfolio Companies

NEW ZEALAND PHARMACEUTICALS

www.nzpharmaceuticals.com

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
November 2005 October 2009	Pharmaceuticals	Pre-IPO	$4,142 $633 $4,775	15.80
November 2005 October 2009	Pharmaceuticals	Pre-IPO	$515 $39 $554	1.97*

*Through BioPacificVentures
Total shareholding managed by Direct Capital 51%

Background

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

Performance

NZP again grew volumes in its core animal extracts business in 2009, and this and the decline in the NZD exchange rate underpinned a significant rebound in sales and profitability from 2008. Sales were a record high and profitability was only slightly below the record 2007 level. There were also some significant improvements in sales of newer products, as well as the Just the Berries blackcurrant extract products.

The major strategic initiative during the year was the acquisition of UK (Reading) based Dextra Laboratories. Dextra is an internationally highly regarded carbohydrate chemistry company, the area into which NZP has been looking to grow its capability in recent years. Dextra's 22 highly skilled chemists develop and produce chemicals at lab stage, up to amounts of tens of grams, for companies that are looking to develop new carbohydrate chemicals. NZP's speciality products facility plant has the ability to produce these chemicals in commercial quantities – from tens of grams to multi kilograms.

Dextra gives NZP a greatly increased capability in the carbohydrate space, as well as a Northern Hemisphere physical and marketing presence.

Andy Lewis, who has been General Manager of the company for five years, was appointed CEO in March 2010. Founding CEO Richard Garland remains an Executive Director.

Outlook

The Dextra acquisition was completed in September 2009 and its subsequent integration with NZP has progressed well, providing confidence that NZP's carbohydrate chemistry sales will grow in 2010.

The rebound in the NZ dollar to 2008 levels does not help sales or profitability in the core business, but the company remains confident that it will again increase volumes and the product range in 2010.

A public listing, either stand-alone or in conjunction with a merger partner, is still the company's medium term goal.

Manager's Report on Portfolio Companies

TRITON HEARING CLINICS LIMITED

www.tritonhearing.co.nz

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
November 2006	Healthcare Services	Expansion	$1,450	18.7

Total shareholding managed by Direct Capital 47%

Background

Triton Hearing Clinics is a hearing aid retail business, providing hearing tests and hearing aid fitting services with clinics in the Waikato, Bay of Plenty, Wellington and Christchurch.

Performance

During 2009 Triton has focussed on maximising the performance of its newly opened clinics in Christchurch and Wellington. Despite tougher economic conditions pleasing progress has been made with group revenues up on 2008.

The final deferred settlement payment was paid to the vendors during the last quarter of 2009.

Outlook

Changes to ACC funding rules are expected to impact revenues in 2010.

Despite these changes other expansion initiatives support long term growth in profits and value.

Manager's Report on Portfolio Companies

STRATEX GROUP LIMITED

www.stratexgroup.co.nz

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
May 2007	Manufacturing	MBO	$3,599	32.80

Total shareholding managed by Direct Capital 83%

Background

Stratex operates in a niche packaging sector of extrusion coating and laminated products designing, manufacturing and supplying specialist packaging product to 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

Stratex has experienced a decline in revenues over the 2009 year as customers in its sector went through a "de-stocking" phase associated with the recession. Stratex has managed its cost base to maintain its gross margin however it is likely that its full-year EBITDA result will be a decline over its prior comparative performance.

Stratex has continued to manage its stock levels well and has produced significant cash with which to reduce its core debt facility ahead of bank requirements. The company continues to meet all bank covenants and obligations.

Following the acquisition of the Trans Tec business reported in last year's annual report, which enabled the company to broaden its packaging capability into film based products, the company has completed the integration of the plant into its Sydney factory and, while it has taken longer than expected, it has developed a number of food related packaging products with key customers. We expect these products to move from trial development to recurring revenues during 2010.

Outlook

General market conditions have improved and the company is budgeting for its FY11 to improve back to the financial performance it achieved in the FY09 period. The company is also continuing to review acquisition opportunities in the broader market.

Manager's Report on Portfolio Companies

GOBUS HOLDINGS LIMITED

www.gobus.co.nz

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
December 2007	Transport	MBO	$4,596	33.2
Oct-Nov 2008			$1,423	
May 2009			$1,491	
			$7,510	

Total shareholding managed by Direct Capital 82%

Background

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

Performance

During 2009 GoBus management were focussed on implementing three large new contract wins:

1. the Hawkes Bay urban services, which commenced operation in February
2. the new Ministry of Education school run contracts, which also commenced in February
3. the Tauranga urban services which commenced in July.

Together with Hamilton, GoBus now provides the majority of the urban services for three of the North Islands major regional cities and a large proportion of the Ministry of Education school services within these regions. All new depots and services are running smoothly, a credit to the GoBus management team given the scale of the expansion.

Direct Capital and Pohutukawa participated in rights issues during the year to finance the buses required for these new routes.

Outlook

The services added in 2009 have underpinned a significant increase in GoBus' earnings through the March 2010 financial year, which has been completed in line with expectations. The business is nearly double the size it was at the time of Direct Capital's initial investment in late 2007. Looking forward, while further expansion is likely to be more incremental, the opportunities for growth in the public transport sector are expected to remain positive.

Manager's Report on Portfolio Companies

HIGGINS ROAD LIMITED

Background

Higgins Road Limited is the owner of GoBus' Head Office and Hamilton bus depot at 57 Higgins Rd, Hamilton.

The investment in Higgins Rd Limited was made to provide Direct Capital with some influence over this property, as a potentially strategic location for the GoBus operations.

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

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
December 2009	Property		$199	17.3

Total shareholding managed by Direct Capital 42.9%

Manager's Report on Portfolio Companies

SHEARS MAC4 LIMITED

www.shearsandmac4.co.nz

SHEARS &MAC4
EXPERTS IN SHOPFITTING & COMMERCIAL INTERIORS

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

Total shareholding managed by Direct Capital 45.5%

Background

Shears & Mac4 Limited is a full-service provider of joinery manufacturing and installation services for the retail and commercial sectors. Merged from Camm 4 and Shears & Mak, the company specialises in fit-outs, and has two key areas of operation: joinery manufacturing based on fully integrated operational and production systems and installation services managing the actual fit-out and associated services. Shears & Mac4 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

In the early part of 2009, Shears & Mac4 experienced difficult trading conditions as its customers in the retail sector faced declining retail spend which delayed a number of new shop fit-outs. The company has however managed through this very well and retained a focus on maintaining top-line revenues but at the expense of margin, and also continued to develop its Australian business.

Shears & Mac4 has produced a very good second half year result and is likely to complete its full year 20% ahead of budget in revenue and EBITDA. The company has continued to broaden its customer base diversifying its revenues into commercial fit-outs.

Outlook

The key objectives for the company in 2010 include achieving margin improvement (in line with the generally improving market conditions), completing an acquisition in Australia to provide local installation capacity in the market (where 20%-30% of the company's manufactured joinery is exported to), and completing the re-location of its two existing plants into one location to fully complete the operational merger of the Camm 4 and Shears & Mak businesses.

Manager's Report on Portfolio Companies

RODD & GUNN LIMITED

www.roddandgunn.com

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
July 2008 December 2009	Retail	Expansion	$2,590 $119 $2,709	11.9

Total shareholding managed by Direct Capital 30%

Background

Rodd & Gunn is a menswear apparel retailer, with over 60 stores in malls, on high streets and department store concessions in Australia and New Zealand. The retailer has a long established brand and targets the premium male customer.

Performance

The second half of 2009 saw an improvement in retail conditions, particularly in Australia, after a difficult nine months for all retailers and Rodd & Gunn was able to grow sales and profitability over this period.

Over the course of 2009 Rodd & Gunn opened several new stores including Botany Downs in Auckland, and its first airport store at Sydney Airport, while existing stores at the important Chadstone, Melbourne and Chatswood, Sydney malls were reformatted as new flagship stores. The number of Rodd & Gunn concessions within Myer department stores was also increased by 5 to 14, and the performance of this Myer business has been particularly pleasing.

During the year Direct Capital and Pohutukawa participated in a shareholder rights issue along with the other Rodd & Gunn shareholders to provide capital for these store expansion initiatives.

Outlook

While the retail climate in NZ remains relatively subdued, the Australian market is performing more positively. The market conditions present an opportunity to grow market share for the longer term and Rodd & Gunn has three new stores and several additional Myer concessions scheduled for opening in 2010. The increasing emphasis on the diffusion 'R&G Duck' product line, targeted at the younger customer, also continues and the first stand-alone Duck store is scheduled to open in Newmarket in mid 2010.

Manager's Report on Portfolio Companies

NEW ZEALAND KING SALMON LIMITED

www.kingsalmon.co.nz

New Zealand King Salmon

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
September 2008	Food	Expansion	$9,399*	11.2
September 2008	Food	Expansion	$696	1.0**

* Original investment $8.558m + capitalised interest in 2009 of $842k
**Through BioPacificVentures
Total shareholding managed by Direct Capital 43.3%

Background

Based in Nelson with sea-farms in Marlborough and employing 415 staff, NZKS is New Zealand's largest integrated aquaculture company specialising in the farming and processing of Chinook salmon. With operations including breeding, farming, processing and distribution, the company has developed its business to include a strong domestic market, plus achieving premium price positioning in export markets along with a wide variety of value-added products such as smoked salmon, fillets, tailored portions and kebabs. It owns the strong consumer brands of Regal, Southern Ocean and Seasmoke.

Performance

The EBITDA result year to date is in line with budget highlighting slightly lower sales balanced by higher margins, which were assisted by favourable product mix.

Year to date sales are up 9.2% on the same period last year, with excellent results achieved in New Zealand and Australia. The other key export markets of Japan and the USA remain challenging in the current environment.

Outlook

The trading outlook for the business remains solid for the remainder of the financial year which continues to benefit from existing foreign exchange cover.

During the year the company has undertaken a series of initiatives to strengthen the business. These involve the introduction of 'Lean Thinking' into the business and the appointment of new sales resource in both the USA and Australia, where sales are currently 30% ahead of budget.

As a result of the positive market results the company continues to look for opportunities to expand both production and processing capacity.

During the year the company was delighted to confirm the appointment of Grant Rosewarne as Chief Executive, who has a strong sales and brand marketing background.

REGAL
Pure Indulgence

FISHPOND LIMITED

www.fishpond.co.nz

Date of Investment	Industry	Stage	Total Investment $000	Shareholding %
October 2009	Online retail	Expansion	$593	3.5

Total shareholding managed by Direct Capital 8.8%

Background

Fishpond is Australasia's largest local online retailer, offering a selection of over 2.9 million books, 315,000 CDs and DVDs, as well as a wide selection games, gaming consoles, and toys. The company generates its revenue from two websites, www.fishpond.co.nz and www.fishpond.com.au.

Performance and Outlook

Fishpond again achieved triple digit revenue growth and increased EBIT in its latest financial year, as its share of the Australasian book sales market continued to grow. Post our investment into the company, it has expanded its offering of books and CDs/DVDs, and launched new toy and gaming categories.

New category managers were hired across existing and new categories to optimise and drive performance.

Increased automation of both the packaging and distribution of outgoing parcels, and in the year ahead moving to a larger warehouse, are being implemented to accommodate the rapid growth in the logistics operations at the company.

With online sales levels in New Zealand and Australia still lagging well behind those in the US, the company expects its current high growth rate to continue for some time into the future.

Manager's Report on Portfolio Companies

BIOPACIFICVENTURES

www.biopacificventures.com

Table 5 BioPacificVentures Investments

Schedule of Investments to 31 December 2009	Date of Original Investment	Industry	Stage	Total Investment (NZ$000)
BioPacificVentures Investments				
Horizon Science Pty Ltd	Jul 06	Manufacturing	Early	$ 940
NZP Holdings Limited	Oct 05	Pharmaceutical	Pre IPO	$ 594
Rissington Breedline Limited	May 07	Food	Early	$ 124
EnCoate Limited	Jul 07	Manufacturing	Early	$ 113
Anzamune Limited	Jul 07	Pharmaceutical	Early	$ 293
New Zealand King Salmon Limited	Sep 08	Food	Expansion	$ 767
CoDa Therapeutics Inc	Sep 08	Pharmaceutical	Start up	$ 419
*BPV Cash				$ 83
				$ 3,583

* Cash position 31-12-2009

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

BPV can place investments in early stage businesses. A number of these involve clinical trials for their products or are at a stage where they are ready to commercialise their product. Some will succeed while others will not warrant further investment. These early stage investments present Pohutukawa with potentially its main risk exposures, although these are small as a percentage of the overall portfolio. The investment risk that the early stage investments pose is mitigated by some of BPV's better performing investments in the food and pharmaceutical sector.

There have been eleven investments to date, since reduced to eight following the repayment of the Cleveland Biosensor convertible note and the Novotech loan at their respective maturities and the exit of Karios Holdings following it's sale. The investment cost of the BPV investments is $3.6 million.

BPV is now focusing on five active investments in the portfolio of eight investments. These active companies are summarised as: Horizon Science with its successful launch of a new sugar product across Australia and New Zealand; CoDa Therapeutics with its promising drug development for healing chronic wounds; Vital Foods with its rapidly increasing revenue from kiwi-fruit based functional foods; and two co-investments with Direct Capital III / Pohutukawa being NZ Pharmaceuticals and NZ King Salmon. These companies represent the five largest investments in the BPV portfolio. The outlook for 2010 is that these companies will continue to achieve revenue growth from these new product offerings.

Directors' Report

For the year ended 31 December 2009

Directors holding office during the year and their remuneration

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

	Fees $	Date of appointment
J McDonald	35,000	13 May 2008
*M Prendergast	35,000	3 March 2009
N J Craig	15,000	16 August 2004
*F M Aldridge	*15,000	3 March 2009
**M W Davies	*35,000	27 August 2004
**W T Stevens	*15,000	27 August 2004

* Director fee pro-rata from date of appointment

** Resigned 3 March 2009. Director fee pro-rata to date of resignation

Entries recorded in the interests register

The entries shown in table 6 below were recorded in the interest register of the company during the year. The directors of Pohutukawa also have co-investment rights in the investments that are undertaken by Pohutukawa.

Table 6 - Directors' shareholdings (including relevant interests) and dealings in Pohutukawa & Pohutukawa co-investments as at 31 December 2009.

Pohutukawa Director Investment Disclosure 31 December 2009				
Investment Holding	J McDonald	M Prendergast	N J Craig	F Aldridge
	No. Securities	No. Securities	No. Securities	No. Securities
Pohutukawa	100,000		209,000	
Express Logistics			7,598	2,026
NZ Pharmaceuticals			16,119	4,341
Stratex Group			11,608	
GoBus			19,627	
Higgins Road			521	
Rodd & Gunn	7,604			
NZ King Salmon	79,977		10,664	
Fishpond Ltd	224	223		

Director

9 April 2010

Date

Director

9 April 2010

Date

Statement of comprehensive income

For the year ended 31 December 2009

		Consolidated		Parent	
	Note	2009	2008	2009	2008
Interest income	*8,14*	1,449,473	596,088	1,449,473	596,088
Dividend income		1,908,126	275,844	-	-
Change in fair value of investments		4,418,402	4,534,643	-	-
Other operating income		303,736	199,400	303,736	199,400
Administrative expenses	*5*	(1,498,511)	(1,783,678)	(1,498,511)	(1,783,678)
Operating profit/(loss)		6,581,226	3,822,297	254,698	(988,190)
Finance expenses - interest		-	(111,636)	-	(111,636)
Profit/(loss) before tax		6,581,226	3,710,661	254,698	(1,099,826)
Income tax expense	*6*	-	-	-	-
Profit/(loss) for the year		6,581,226	3,710,661	254,698	(1,099,826)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		6,581,226	3,710,661	254,698	(1,099,826)
Attributable to:					
Equity holders of the parent		254,698	(1,099,826)	254,698	(1,099,826)
Minority interest	*3a(iv)*	6,326,528	4,810,487	-	-
Profit/(loss) for the year attributable to the equity holders of stapled securities		6,581,226	3,710,661	254,698	(1,099,826)

Statement of changes in equity

As at 31 December 2009

Consolidated	Attributable to equity holders of the parent Share capital	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2009	44,872,106	(2,952,782)	41,919,324	9,914,788	51,834,112
Total comprehensive income for the year	-	254,698	254,698	6,326,528	6,581,226
Distributions to equity holders	-	-	-	(6,651,794)	(6,651,794)
Repayment of preference shares	(3,138,100)	-	(3,138,100)	-	(3,138,100)
Balance at 31 December 2009	41,734,006	(2,698,084)	39,035,922	9,589,522	48,625,444
Balance at 1 January 2008	17,332,000	(1,852,956)	15,479,044	5,380,144	20,859,188
Total comprehensive income for the year	-	(1,099,826)	(1,099,826)	4,810,487	3,710,661
Distributions to equity holders	-	-	-	(275,843)	(275,843)
Issue of share capital	31,800,000	-	31,800,000	-	31,800,000
Repayment of preference shares	(4,259,894)	-	(4,259,894)	-	(4,259,894)
Balance at 31 December 2008 (Restated)	44,872,106	(2,952,782)	41,919,324	9,914,788	51,834,112

Parent	Share capital	Retained earnings	Total equity
Balance at 1 January 2009	44,872,106	(2,952,782)	41,919,324
Total comprehensive income for the year	-	254,698	254,698
Repayment of share capital	(3,138,100)	-	(3,138,100)
Balance at 31 December 2009	41,734,006	(2,698,084)	39,035,922
Balance at 1 January 2008	17,332,000	(1,852,956)	15,479,044
Total comprehensive income for the year	-	(1,099,826)	(1,099,826)
Issue of share capital	31,800,000	-	31,800,000
Repayment of share capital	(4,259,894)	-	(4,259,894)
Balance at 31 December 2008 (Restated)	44,872,106	(2,952,782)	41,919,324

Statement of financial position

As at 31 December 2009

	Note	Consolidated 2009	Consolidated 2008 (Restated)	Parent 2009	Parent 2008 (Restated)
Assets					
Loans to related parties	*17*	-	-	28,919,733	28,854,414
Loans and receivables	*8*	6,936,559	6,539,607	6,936,559	5,836,335
Investments – equity securities	*7*	35,704,311	35,598,144	-	-
Total non-current assets		42,640,870	42,137,751	35,856,292	34,690,749
Other receivables	*9*	1,040,210	439,011	336,934	439,011
Cash and cash equivalents	*11*	5,061,688	9,536,792	5,061,688	9,536,792
Total current assets		6,101,898	9,975,803	5,398,622	9,975,803
Total assets		48,742,768	52,113,554	41,254,914	44,666,552
Equity					
Issued capital	*12*	41,734,006	44,872,106	41,734,006	44,872,106
Retained losses		(2,698,084)	(2,952,782)	(2,698,084)	(2,952,782)
Total equity attributable to equity holders of the parent		39,035,922	41,919,324	39,035,922	41,919,324
Minority interest		9,589,522	9,914,788	-	-
Total equity attributable to equity holders of stapled securities		48,625,444	51,834,112	39,035,922	41,919,324
Liabilities					
Loans from related parties	*17*	-	-	2,101,672	366,114
Trade and other payables	*13*	117,324	279,442	117,320	279,442
Total current liabilities		117,324	279,442	2,218,992	645,556
Loans from related parties	*17*	-	-	-	2,101,672
Total non-current liabilities		-	-	-	2,101,672
Total liabilities		117,324	279,442	2,218,992	2,747,228
Total equity and liabilities		48,742,768	52,113,554	41,254,914	44,666,552

For and on behalf of the Board

Director

9 April 2010

Date

Director

9 April 2010

Date

Statement of cash flows

For the year ended 31 December 2009

	Note	Consolidated 2009	Consolidated 2008 (Restated)	Parent 2009	Parent 2008 (Restated))
Cash flows from operating activities					
Cash receipts from fees		303,736	243,074	303,736	243,074
Interest received		329,812	572,092	329,812	572,092
Dividends received		1,908,126	275,844	-	-
Income tax refunded		3,358	7,761	3,358	7,761
Income taxes paid		(23,533)	(3,358)	(23,533)	(3,358)
Interest paid		(19,278)	(92,358)	(19,278)	(92,358)
Cash paid to suppliers		(1,444,262)	(1,786,263)	(1,444,262)	(1,786,263)
Net cash from operating activities	*14*	1,057,959	(783,208)	(850,167)	(1,059,052)
Cash flows from investing activities					
Proceeds from sale of investments		7,178,497	4,259,892	-	-
Loans advanced to investment companies		-	-	(2,866,261)	(10,162,417)
Loans advanced to related parties		(258,371)	-	(258,371)	(5,836,335)
Loans repaid by investment companies		-	-	2,800,942	1,792,108
Acquisition of investments		(2,866,261)	(15,998,752)	-	-
Net cash from investing activities		4,053,865	(11,738,860)	(323,690)	(14,206,644)
Cash flows from financing activities					
Proceeds from share calls		400,000	31,400,000	400,000	31,400,000
Loans advanced by investment companies		-	-	-	2,664,818
Loans repaid to investment companies		-	-	(366,114)	-
Repayment of preference shares		(3,335,133)	(4,062,860)	(3,335,133)	(4,259,894)
Distributions to equity holders		(6,651,795)	(275,844)	-	-
Loans repaid to external parties		-	(5,096,223)	-	(5,096,223)
Net cash from financing activities		(9,586,928)	21,965,073	(3,301,247)	24,708,701
Net movement in cash and cash equivalents		(4,475,104)	9,443,005	(4,475,104)	9,443,005
Cash and cash equivalents at 1 January		9,536,792	93,787	9,536,792	93,787
Cash and cash equivalents at 31 December	*11*	5,061,688	9,536,792	5,061,688	9,536,792

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 24 (2008: 24) Investment Companies are registered under the Companies Act 1993 and are issuers and reporting entities for the purposes of the Financial Reporting Act 1993. The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and 24 (2008: 24) Investment Companies (together referred to as the "Group").

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

The financial statements were approved by the Directors on 9 April 2010.

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.

(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.

(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 8 – Loans and receivables
- Note 15 – Financial risk management

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Stapled securities

For every ordinary share held in Pohutukawa Private Equity Limited, investors also hold 100 preference shares in Pohutukawa Private Equity Limited as well as one preference share in each of the 24 (2008: 24) Investment Companies. All of these shares are stapled securities. This stapling arrangement creates a business combination by contract alone without any individual entity obtaining an ownership interest. The Group has designated Pohutukawa Private Equity Limited as the acquirer and the parent entity for the purpose of preparing consolidated financial statements. The 24 (2008: 24) companies combining under the stapling arrangement are designated as the Investment Companies who invest in Portfolio Companies.

(ii) Associates

Investments in equity securities, which would normally be

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

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

(iii) Transactions eliminated on consolidation

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

(iv) Minority interest

Minority 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 minority 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

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

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

Investments in 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 Companies are private equity investors.

(c) Trade and other receivables

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

(d) Loans receivable

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

(e) Finance income and expense

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

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

(f) Cash and cash equivalents

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

(g) Impairment

The carrying amounts of the Group's assets, other than investments in equity securities (see accounting policy b), and deferred tax assets (see accounting policy k), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

The carrying amounts of the Group's receivables are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on the present value of estimated future cash flows, discounted at the original effective interest rate.

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

(h) Share capital

(i) Preference share capital

Preference share capital is classified as equity if it is non-

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

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

(ii) Repurchase of share capital

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

(iii) Dividends

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

(i) Loans and borrowings

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

(j) Trade and other payables

Trade and other payables are stated at cost.

(k) Revenue

(i) Services rendered

Revenue from services rendered (e.g. Transaction Fees) is included within other operating income and recognised in the statement of comprehensive income as earned.

(ii) Equity investments

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

(iii) Interest income

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

(l) Financing expenses

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

(m) Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

(n) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.
The Company and group currently operate in one business segment, being an investment group, and in one geographical segment, New Zealand. Therefore no disaggregated segment reporting is presented.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

(o) New standards and pronouncements relevant to the Group

New standards adopted

The following new standards and amendments to standards have been adopted by the Group in the current period:

NZ IAS 1 (Revised) Presentation of Financial Statements
The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity (items of income and expense) are required to be presented in a performance statement.

Entities are given the option to present one performance statement (a statement of comprehensive income) or two performance statements (the income statement and a statement of comprehensive income). The Group has elected to present one performance statement, a statement of comprehensive income.

Amendment: NZ IFRS 7 Financial Instrument Disclosures
The amendments to NZ IFRS 7 aim to enhance disclosures over fair value measurements relating to financial instruments, specifically in relation to disclosures over the inputs used in valuations techniques and the uncertainty associated with such valuations.

New standards not yet adopted

A number of new standards are not yet effective for the year ended 31 December 2009 and have not been applied in preparing these financial statements. The standards that will be relevant to the group are:

NZ IFRS 3 - Business Combinations (revised)
NZ IFRS 9 - Financial Instruments
NZ IAS 24 - Related Party Disclosures (revised 2009)
NZ IAS 27 - Consolidated and Separate Financial Statements (amended)

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

(p) Goods and services tax (GST)

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

4. Determination of fair values

The fair value of investment in equity securities measured at their fair value is their quoted bid price at the reporting date, if available, or valuations. Investments in unlisted equity securities are valued at Directors' valuation in the year of acquisition and subsequently by annual valuations carried out in accordance with the valuation principles set out by The Australian Private Equity and Venture Capital Association Limited (AVCAL). Valuations are performed by Direct Capital Management Limited (see Note 17).

Notes to the consolidated financial statements

5. Administrative expenses

	Consolidated		Parent	
	2009	2008	2009	2008
Management fees	1,202,771	1,333,860	1,202,771	1,333,860
Advisory fees	95,066	219,577	95,066	219,577
Directors' fees	99,829	88,333	99,829	88,333
Other administrative expenses	100,845	141,908	100,845	141,908
	1,498,511	1,783,678	1,498,511	1,783,678
The following items of expenditure are included in administrative expenses:				
Auditor's remuneration to KPMG comprises:				
Audit of financial statements	28,450	23,056	28,450	23,056
Other audit-related services	5,732	-	5,732	-
Tax advice and compliance	-	226	-	226

Other audit related services include review of interim financial statements.

6. Income tax expense

	Consolidated		Parent	
	2009	2008	2009	2008
Income tax expense in statement of comprehensive income	-	-	-	-

Reconciliation of effective tax rate

	2009	2008	2009	2008
Profit before tax	6,581,226	3,710,661	254,698	(1,099,826)
Income tax expense at 30% tax rate	1,974,368	1,113,198	76,409	(329,948)
Non-deductible expenses	28,520	65,873	28,520	65,873
Tax exempt income	(1,325,522)	(1,360,393)	-	-
RWT received	(21,797)	-	-	-
Imputation credits received	(898,310)	(135,863)	-	-
Tax (profit)/losses not recognised in the statement of comprehensive income	242,741	317,185	(104,929)	264,075
Total income tax expense in statement of comprehensive income	-	-	-	-

Notes to the consolidated financial statements

6. Income tax expense *(continued)*

Imputation credits

	Consolidated		Parent	
	2009	2008	2009	2008
Balance at beginning of period	3,358	7,761	3,358	7,761
Income tax paid	23,533	3,358	1,736	3,358
Income tax refunded	(3,358)	(7,761)	(3,358)	(7,761)
Imputation credits attached to dividends received	898,310	135,863	-	-
Imputation credits attached to dividends paid	(907,291)	(135,863)	-	-
Balance at end of period	14,552	3,358	1,736	3,358
Imputation credits available to shareholders of the parent company:				
Through the parent company	1,736	3,358	-	-
Through investment companies	12,816	-	-	-
	14,552	3,358	-	-

7. Investments – equity securities

Non-current investments

The Group has a number of investments in unlisted equity securities. Group policy is to carry these investments at fair value with subsequent movements in fair value recognised in the statement of comprehensive income. As there is no quoted market price for these securities, valuation techniques must be utilised to determine fair value. The valuations are carried out by Direct Capital Management Limited (see Note 17) using AVCAL guidelines.

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

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by $1,595,671 (2008: $1,431,484).

A movement in the adjustment factor of 5% changes the value of the investments by $5,361,754 (2008: $1,875,769).

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

Notes to the consolidated financial statements

7. Investments – equity securities *(continued)*

Non-current investments *(continued)*
The difference between the cost and the carrying value in the statement of financial position is shown as a fair value movement through the statement of comprehensive income. The cost of each acquisition is shown in the tables below (excluding loans) and the total agrees to the amount showing as loans and receivables in the statement of financial position:

2009

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
Log Group Limited (formerly Express Logistics Group Limited) (a)	Logistics	Oct 2005	19.7%	-
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.8%	4,775,157
BioPacificVentures	Private equity vehicle*	Nov 2005	11.0%	3,629,552
Triton Hearing Clinics Limited	Health services	Nov 2006	18.7%	1,449,930
Stratex Group Limited (formerly Paper Coaters Group Limited)	Manufacturing	Apr 2007	32.8%	3,598,812
GoBus Limited and Higgins Road Limited	Transport services	Dec 2007	33.2%	7,570,886
Shears & Mac4 Limited	Manufacturing	Jun 2008	18.1%	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	11.2%	2,721,682
Fishpond Limited	Online retail	Oct 2009	3.5%	592,938
				28,919,733

2008

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
Express Logistics Group Limited (a)	Logistics	Oct 2005	19.7%	2,800,068
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.8%	4,142,685
BioPacificVentures	Private equity vehicle*	Nov 2005	11.0%	3,539,937
International Forwarding Limited	Logistics	Oct 2006	22.4%	874
Triton Hearing Clinics Limited	Health services	Nov 2006	18.7%	1,449,930
Paper Coaters Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812
Innovair Group Limited (b)	Consumer goods	Aug 2007	11.3%	-
GoBus Limited	Transport services	Dec 2007	31.8%	6,019,650
Shears & Mac4 Limited	Manufacturing	Jun 2008	18.1%	1,990,295
Rodd & Gunn NZ Limited & Rodd & Gunn Australia Limited	Retail	Aug 2008	11.9%	2,590,481
New Zealand King Salmon Investments Limited	Food	Sep 2008	9.9%	2,721,682
				28,854,414

* BioPacificVentures invests across the entire spectrum of private equity both in early stage and later stage investments.

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

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

Notes to the consolidated financial statements

7. Investments – equity securities *(continued)*

Non-current investments *(continued)*

(b) Innovair Limited

In May 2008 Innovair Limited (investment held by Pohutukawa Eta Investments Limited) sold its business assets. The original investment capital of $919,479 was repaid and surplus proceeds of $1,904,638 were distributed to the shareholders of Pohutukawa Private Equity Limited on the 5 November 2008.

The sale is subject to certain conditions (warranties). At balance date $703,272 is held on escrow until May 2010 and is showing as a current receivable in the statement of financial position as at 31 December 2009 (2008: non-current receivable $703,272).

Capital proceeds distributed to date may be subject to warranty claims, however to date Directors are not aware of any claims payable and do not believe any claims will become payable.

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 2009 was $35,704,311 (2008: $35,598,144).

8. Loans and receivables

	Consolidated		Parent	
Non-current assets	**2009**	**2008 (Restated)**	**2009**	**2008 (Restated)**
Loan to New Zealand King Salmon	6,678,188	5,836,335	6,678,188	5,836,335
Loan to Rodd & Gunn	119,377	-	119,377	-
Loan to Higgins Road Limited (GoBus Limited)	138,994	-	138,994	-
Sale of investments proceeds receivable	-	703,272	-	-
	6,936,559	6,539,607	6,936,559	5,836,335

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

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

Prior period adjustment

In September 2008 New Zealand King Salmon Investments Limited (investment held by Pohutukawa Lambda Investments Limited) was advanced $5,836,335 as a loan at an interest rate to be set annually, currently 15.00%. The terms of the loan enable New Zealand King Salmon, at its option, to capitalise the loan and interest into equity. Interest income includes $1,113,535 (2008: nil) relating to this loan. During 2009, interest income of $841,853 was capitalised to a new loan at an interest rate of 0%.

This initial loan was incorrectly classified as 'investments – equity securities' in the 2008 financial statements, but has been correctly classified as 'loans and receivables' in these financial statements. There was no resulting change to the carrying value in the statement of financial position.

Notes to the consolidated financial statements

9. Other receivables

	Consolidated		Parent	
	2009	2008	2009	2008
Trade receivables due from related parties	237	88	237	88
Income tax receivable	1,736	3,358	1,736	3,358
Sale of investments proceeds receivable	703,272	-	-	-
Other receivables	334,965	435,565	334,961	435,565
	1,040,210	439,011	336,934	439,011

As at 31 December 2009, no trade and other receivables are considered past due (2008:$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	2009	2008 (Restated)	2009	2008
Opening balance 1 January 2009		863,379	546,194	810,269	546,194
Tax profit/(loss) not recognised in the statement of comprehensive income	*6*	242,741	317,185	(104,929)	264,075
Closing balance 31 December 2009		1,106,120	863,379	705,340	810,269

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

11. Cash and cash equivalents

	Consolidated		Parent	
	2009	2008	2009	2008
Call deposits	221,688	142,778	221,688	142,778
Short-term deposits	4,840,000	9,394,014	4,840,000	9,394,014
Cash and cash equivalents in the statement of cash flows	5,061,688	9,536,792	5,061,688	9,536,792

All Call deposits are held within Craigs Investment Partners Cash Management Trust Limited. The weighted average interest rate for 2009 on call deposits is 3.18% (2008: 6.82%).

On 25 November 2008, Craigs Investment Partners Cash Management Trust Limited entered into a Deed of Guarantee with the Crown. The guarantee is effective for qualifying depositors from 12 October 2008 to 12 October 2010.

Short-term deposits are held with Craigs Investment Partners Cash Management Trust Limited, and The National Bank. The weighted average interest rate on short-term deposits is 4.25% (2008: 7.84%).

Notes to the consolidated financial statements

12. Share capital

Share capital

Consolidated

In millions of shares	Investment Co's Preference shares 2009	Investment Co's Preference shares 2008	PPE Ordinary shares 2009	PPE Ordinary shares 2008	PPE Preference shares 2009	PPE Preference shares 2008 (Restated)
On issue at 1 January	1,272	1,325	53	53	4,532	4,938
Redemption and cancellation of shares	-	(53)	-	-	(334)	(406)
On issue at 31 December	1,272	1,272	53	53	4,198	4,532

Parent

In millions of shares	Ordinary shares 2009	Ordinary shares 2008	Preference shares 2009	Preference shares 2008 (Restated)
On issue at 1 January	53	53	4,532	4,938
Redemption of shares	-	-	(334)	(406)
On issue at 31 December	53	53	4,198	4,532

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

At 31 December 2009, the share capital of the Company comprised 53,000,000 ordinary shares (2008: 53,000,000), and 4,198,400,900 preference shares (2008: 4,531,914,000). In addition, there are 1,272,000,000 (2008: 1,272,000,000) preference shares in the 24 (2008: 24) 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.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to $0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

Pohutukawa Gamma Investments Limited is currently in the process of being liquidated and while no preference shares in the Investment Company have yet been cancelled, $4,742,796 has been distributed to shareholders via minority interest distributions.

Prior period adjustment

The 2008 financial statements included distributions totalling $2,467,786 made via the Investment Companies (Gamma and Eta), however the distributions should have been treated as a repurchase of redeemable preference shares through the parent company. In conjunction with this the parent should have reflected loans due from the Gamma and Eta investment companies totalling $2,467,786. These changes have been reflected in these financial statements and have had no impact on the statement of comprehensive income or the total equity attributable to the equity holders of stapled securities. The only impact has been on the split between share capital and minority interest. Total equity has not changed as a result. See also Note 17.

Notes to the consolidated financial statements

13. Trade and other payables

	Consolidated		Parent	
	2009	2008	2009	2008
Trade payables due to related parties	8,438	7,564	8,438	7,564
Non-trade payables and accrued expenses	108,886	271,878	108,882	271,878
	117,324	279,442	117,320	279,442

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

		Consolidated		Parent	
	Note	2009	2008	2009	2008
Profit / (loss) for the year		6,581,226	3,710,661	254,698	(1,099,826)
Adjustments for:					
Change in fair value of investments		(4,418,402)	(4,534,643)	-	-
Interest capitalised		(841,853)	-	(841,853)	-
Change in trade and other receivables		(299,545)	19,678	(299,545)	19,678
Change in income tax receivable		1,622	4,403	1,622	4,403
Change in trade payables and accruals		34,911	16,693	34,911	16,693
Net cash flow to/(from) operating activities		1,057,959	(783,208)	(850,167)	(1,059,052)

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.

Notes to the consolidated financial statements

15. Financial risk management *(continued)*

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 balance date there were significant concentrations of credit risk.

The Group also invests its surplus funds in short-term deposits at two financial institutions, Craigs Investment Partners Cash Management Trust Limited and The National Bank. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position. Craigs Investment Partners Cash Management Trust Limited is covered by a Crown Deposit Guarantee, subject to a $1,000,000 cap on any one person or entity, which does apply to Pohutukawa Private Equity Limited.

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 companies which the Investment Companies hold an ownership interest in. The Group earns interest on bank accounts and short-term deposits. Management invest excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required. The Group may also borrow short-term funds at floating rates due to the short-term nature of these borrowings.

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

Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances, short-term deposits and loans and receivables as detailed in note 8. At balance date the effective interest rates for bank balances for 2009 is 2.75% (2008: 4.5%), short-term deposits for 2009 is 4.66% (2008: 5.3%), and loans advanced to companies which the Investment Companies hold an ownership interest in is 12.9% (2008: 15%).

Bank balances reprice daily and short-term deposits reprice within 6 months.

Liquidity risk

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

Notes to the consolidated financial statements

15. Financial risk management *(continued)*

Interest rate risk – repricing analysis

	Note	Total bearing	Non interest	6 months or less
Consolidated 2009				
Cash and cash equivalents	*11*	5,061,688	-	5,061,688
Loans and receivables	*8*	6,936,559	-	6,936,559
Total		**11,998,247**	-	**11,998,247**
Consolidated 2008				
Cash and cash equivalents	*11*	9,536,792	-	9,536,792
Loans and receivables	*8*	6,539,607	703,272	5,836,335
Total		**16,076,399**	**703,272**	**15,373,127**
Parent 2009				
Cash and cash equivalents	*11*	5,061,688	-	5,061,688
Loans and receivables	*8*	6,936,559	-	6,936,559
Total		**11,998,247**	-	**11,998,247**
Parent 2008				
Cash and cash equivalents	*11*	9,536,792	-	9,536,792
Loans and receivables	*8*	5,836,335	-	5,836,335
Total		**15,373,127**	-	**15,373,127**

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.

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 2009 it is estimated that a general increase of one percentage point in interest rates on its cash and cash equivalents would increase the Group's profit before income tax by approximately $294,011 (2008: $74,000) over a one-year period.

At 31 December 2009 it is estimated that a general increase of one percentage point in interest rates on its loans and receivables would increase the Group's profit before income tax by approximately $434,367 (2008: $364,771) 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, other than in respect of borrowings with a maturity date not in excess of ninety days (provided that in no case shall such borrowings exceed called but unpaid capital commitments).

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

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

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

Notes to the consolidated financial statements

15. Financial risk management *(continued)*

Classification and fair values

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

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Consolidated 2008 (Restated)						
Assets						
Cash and cash equivalents	*11*	-	9,536,792	-	9,536,792	9,536,792
Investments	*7*	35,598,144	-	-	35,598,144	35,598,144
Loans and receivables	*8*	-	6,539,607		6,539,607	6,539,607
Other receivables	i	-	439,011	-	439,011	439,011
Total assets		**35,598,144**	**16,515,410**	-	**52,113,554**	**52,113,554**
Liabilities						
Trade and other payables	*13*	-	-	279,442	279,442	279,442
Total liabilities		-	-	**279,442**	**279,442**	**279,442**

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 2009						
Assets						
Cash and cash equivalents	*11*	-	5,061,688	-	5,061,688	5,061,688
Loans to related parties	*17*	-	28,919,733	-	28,919,733	28,919,733
Loans and receivables	*8*	-	6,936,559	-	6,936,559	6,936,559
Other receivables	*9*	-	336,934	-	336,934	336,934
Total assets		-	**41,254,914**	-	**41,254,914**	**41,254,914**
Liabilities						
Loans from related parties	*17*	-	-	2,101,672	2,101,672	2,101,672
Trade and other payables	*13*	-	-	117,320	117,320	117,320
Total liabilities		-	-	**2,218,992**	**2,218,992**	**2,218,992**

	Note	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Parent 2008 (Restated)						
Assets						
Cash and cash equivalents	*11*	-	9,536,792	-	9,536,792	9,536,792
Loans to related parties	*17*	-	28,854,414	-	28,854,414	28,854,414
Loans and receivables	*8*	-	5,836,335	-	5,836,335	5,836,335
Other receivables	*9*	-	439,011	-	439,011	439,011
Total assets		-	**44,666,552**	-	**44,666,552**	**44,666,552**
Liabilities						
Loans from related parties	*17*	-	-	2,467,786	2,467,786	2,467,786
Trade and other payables	*13*	-	-	279,442	279,442	279,442
Total liabilities		-	-	**2,747,228**	**2,747,228**	**2,747,228**

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

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

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

	Investments
Opening balance	35,598,144
Total gains or losses:	
In profit or loss	4,418,402
In other comprehensive income	-
Investments	2,866,261
Distributions	(7,178,496)
Closing balance	35,704,311

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

	Investments
Total gains or losses included in profit or loss for the year	4,418,402
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	2,359,288

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Refer Note 7 for sensitivity analysis with regards to the earnings multiple or adjustment factor.

Notes to the consolidated financial statements

16. Capital commitments and contingencies

During the year ended 31 December 2004, the Group entered into a commitment to invest $5,300,000 in BioPacificVentures Limited (BPV). These funds are called by BPV as required and as at 31 December 2009 $928,560 remained uncalled (2008: $1,160,789).

In accordance with clause 11 of the Prospectus, the Manager is entitled to an earnout payment calculated at 20% of net returns to Pohutukawa after investors have received back their original investment together with further distributions producing pre-tax compound hurdle rate of 8.0% per annum on Called Capital. Total unrealised earnout as at 31 December 2009 is calculated at $3.64m (2008: $nil). Based on current portfolio company fair value valuations of $35.7m and loans receivable of $6.9m being fully recovered. Due to the uncertain timing and amount of investment realisation and future distributions, no provision has been made for this payment in the financial statements. A provision will not be recognised until the pre-tax compound hurdle rate has been distributed or there is more certainty that an earnout payment will be made.

17. Related parties

a) Identity of related parties

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

Craigs Investment Partners Limited and Direct Capital Limited own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited. Certain directors of the Company are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital Limited and Direct Capital Management Limited.

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

b) Transactions with related parties

During the period, Pohutukawa Private Equity Limited entered into the following transactions with related parties:
Management fees paid to Pohutukawa Management Limited totalled $1,070,753 (2008: $1,192,500).
Legal and accounting expenses incurred in relation to investment activity by Direct Capital Management Limited of $95,066 (2008: $226,172) were reimbursed by Pohutukawa Private Equity Limited.
Surplus cash has been invested into Craigs Investment Partners Cash Management Trust Limited, which is managed by a subsidiary of Craigs Investment Partners Limited.

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Additionally, loans were advanced to Investment Companies totalling $2,866,261 (2008: $15,998,752) during the year. Loans repaid were $2,800,068 (2008: $1,792,107). Total loans outstanding as at 31 December 2009 were $28,919,733 (2008: $28,854,414). Loans to related parties are non-interest bearing loans made to Investment Companies, which are used to acquire long-term equity investments. Loans are repayable on demand.

There were no loans received from Investment Companies during the period (2008: $2,467,786). Loans totalling $366,114 were repaid to the Investment companies during the period (2008: $nil). Loans are interest free and not payable until called by the investment companies.

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

Notes to the consolidated financial statements

17. Related parties *(continued)*

c) Transactions with key management personnel

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
Directors fees (total remuneration)	99,829	88,333	99,829	88,333

The balance owing to key management personnel at 31 December 2009 is $25,938 (2008: $35,938).

18. Subsequent events

On 30 March 2010, a distribution of $3,750,182 equivalent to 7 cents per share was paid to shareholders. The distribution included a dividend from NZP Holdings Limited and a further capital distribution from Log Group Limited (formerly Express Logistics Limited).

Notes to the consolidated financial statements

19. Group entities

Investment Companies

	Country of incorporation	Ownership interest*	
		2009	2008
Pohutukawa Alpha Investments Limited ("Alpha")	New Zealand	0%	0%
Pohutukawa Gamma Investments Limited ("Gamma")	New Zealand	0%	0%
Pohutukawa Delta Investments Limited ("Delta")	New Zealand	0%	0%
Pohutukawa Epsilon Investments Limited ("Epsilon")	New Zealand	0%	0%
Pohutukawa Zeta Investments Limited ("Zeta")	New Zealand	0%	0%
Pohutukawa Eta Investments Limited ("Eta")	New Zealand	0%	0%
Pohutukawa Theta Investments Limited ("Theta")	New Zealand	0%	0%
Pohutukawa Iota Investments Limited ("Iota")	New Zealand	0%	0%
Pohutukawa Kappa Investments Limited ("Kappa")	New Zealand	0%	0%
Pohutukawa Lambda Investments Limited ("Lambda")	New Zealand	0%	0%
Pohutukawa Mu Investments Limited ("Mu")	New Zealand	0%	0%
Pohutukawa Nu Investments Limited ("Nu")	New Zealand	0%	0%
Pohutukawa Xi Investments Limited ("Xi")	New Zealand	0%	0%
Pohutukawa Omicron Investments Limited ("Omicron")	New Zealand	0%	0%
Pohutukawa Pi Investments Limited ("Pi")	New Zealand	0%	0%
Pohutukawa Rho Investments Limited ("Rho")	New Zealand	0%	0%
Pohutukawa Sigma Investments Limited ("Sigma")	New Zealand	0%	0%
Pohutukawa Tau Investments Limited ("Tau")	New Zealand	0%	0%
Pohutukawa Upsilon Investments Limited ("Upsilon")	New Zealand	0%	0%
Pohutukawa Phi Investments Limited ("Phi")	New Zealand	0%	0%
Pohutukawa Chi Investments Limited ("Chi")	New Zealand	0%	0%
Pohutukawa Psi Investments Limited ("Psi")	New Zealand	0%	0%
Pohutukawa Omega Investments Limited ("Omega")	New Zealand	0%	0%
Pohutukawa Alpha-Pi Investments Limited ("Alpha-Pi")	New Zealand	0%	0%

*As stated in note 1(c)(i), the shares in the Investment Companies are owned by the individual shareholders of Pohutukawa Private Equity Limited but are consolidated into the group as they are stapled securities.

Audit Report

To the shareholders of Pohutukawa Private Equity Limited

We have audited the financial statements on pages 20 to 42. The financial statements provide information about the past financial performance and financial position of the company and group as at **31 December 2009**. This information is stated in accordance with the accounting policies set out on pages 24 to 27.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at **31 December 2009** and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. Partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company or any of the investment companies.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 20 to 42:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 31 December 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 9 April 2010 and our unqualified opinion is expressed as at that date.

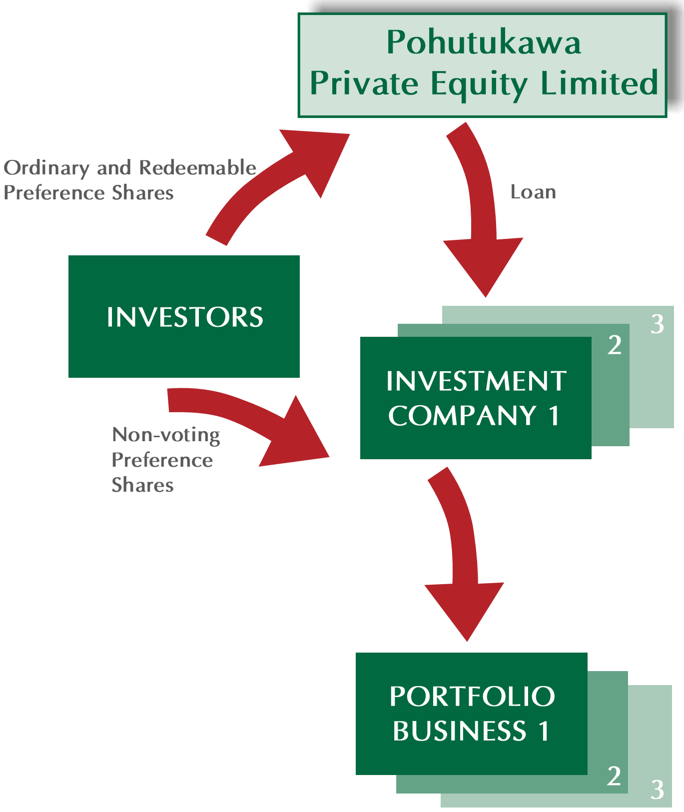
KPMG

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 the remaining 24 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 holds all the ordinary voting shares in each of the Investment Companies and exercises these rights in accordance with the Pohutukawa investment policy and the investment criteria.

Pohutukawa has a separate Board to ensure best-practice corporate governance and to ensure that the shareholders' interests are held paramount. The Board has two independent directors.

For so long as it holds at least 50% of the issued shares in the Manager, Craigs Investment Partners is entitled to appoint up to 50% of the directors of Pohutukawa Private Equity. All other directors of Pohutukawa can be appointed by directors or removed by ordinary resolution of the investors. The Board sets the investment policy and criteria, and reviews the performance of the Manager from time to time and reports to the shareholders on the content of this review. It reviews the capital adequacy of Pohutukawa and is responsible for continuous disclosure and timely shareholder meetings of Pohutukawa. The Directors of each Investment Company can be appointed or removed only by the Manager (being the holder of the ordinary shares in the Investment Company).

The Manager is a 50/50 joint venture between Direct Capital and Craigs Investment Partners, both of whom provide services to the Manager on a contract basis. Direct Capital provides investment management services. Craigs Investment Partners provides fundraising, cash management, administration, investor communication, and investment sourcing and divestment assistance. The Investment Committee of the Manager is responsible for all investment decisions, subject to compliance with the investment policy set by the Board.

The Pohutukawa Board

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

JOHN MCDONALD
(Chairman and Independent Director)

John is a Company director and trustee who has more than 30 years experience in executive and management positions with the former Fletcher Challenge group of companies through to his retirement in 2001. He has considerable international experience in management, finance, corporate governance best practice and as a director and audit committee member of private and publicly listed companies. John is currently a director of Air New Zealand Limited, Solid Energy New Zealand Limited, Dairy Equity Limited and Horizon Energy Distribution Limited. He is also Chairman of Pohutukawa Private Equity II Limited.

MAURICE JOHN PRENDERGAST
(Independent Director)

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

NEIL JOHN CRAIG
(Non-Executive Director)

Neil is the founding principal and Executive Chairman of Craigs Investment Partners, a NZX Participant Firm, a company he has been instrumental in building from a small regionally based sharebroking business in Whakatane to its current position as a leading New Zealand investment advisory firm. Craigs Investment Partners has approximately 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 II Limited, the second Pohutukawa fund, as well as Comvita Limited (Chairman) and a number of privately held companies. He has previously been a Director of Mighty River Power Limited, New Zealand Stock Exchange and Trust Bank Bay of Plenty Limited.

FRANK MAURICE ALDRIDGE
(Non Executive Director)

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

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

Committees

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

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

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

Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY

John McDonald
Neil Craig
Maurice Prendergast
Frank Aldridge

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

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Fax: (07) 578 2555

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