Pohutukawa AGM

Tuesday 13th May held at AMB AMRO Craigs' office

Thank you for attending the 4th annual meeting of Pohutukawa Private Equity which is part of Direct Capital's private equity fund, DCP III. As you know, Pohutukawa is $53m of our $118.5m private equity programme.

Today, I want to talk to you about five things,

1. the banking environment and its impacts on investment
2. my views on the private equity industry as a whole
3. the companies we have invested in to date

   There is a detailed description of the portfolio companies in the annual report. I will give you an update on that report and some colour around what's currently happening with them. In addition, we have signed a contract to purchase one additional company. We are going through the process of settling that transaction as we speak.

4. the Max Fashions realisation
5. the future of Pohutukawa

The year in review and our assessment of the current market

As we discussed at last years annual meeting, we were nervous about the heights company valuations had reached and nervous about the ready availability of bank finance for virtually anyone who stepped up to the plate. You will also recall that we were nervous about the continued availability of credit on those loose terms and therefore the sustainability of those valuations.

We had a relatively quiet year where we invested sparingly. Investments were being priced solely on their up side, with little consideration for the risk investors were being asked to take. . At Direct Capital, we consider risk seriously. In each deal we measure the up and down side in dollar terms for you, and also calculate the likelihood of those up and down side scenarios.

You should never just accept funds like Direct Capital quoting you the returns figure without an analysis of what risk you took to get that return.

We apply this risk consideration to every investment we make on your behalf and it is the reason our returns are good, but it is also the reason that we are still in business 15 years after establishment.

While we were nervous about the credit markets, we had no idea of its global reach. We are staggered at how different the banking market is today from November last year.

Notwithstanding this difficult credit environment, we continue to find good investment opportunities. They are however, different. GoBus is a very good example of a defensive deal we look to, that we perhaps may not have looked at in boom times. The comfort of a five or seven year contract which is common in the bus market, suddenly looks attractive in times like these.

It is also only a credit crisis. For those of us with equity capital, it is a time of real opportunity. We have historically made our best investments in these times, without changing our core investment criteria and philosophies which have been constant since our inception in 1994. In many ways this environment plays to our strengths, which include real flexibility in how we invest with management and shareholders in companies and our experience in partial and non control shareholdings.

For the past 12 months, you have been hounded by press articles on private equity. Almost all of these are syndicated stories and about either the US or the UK. The term private equity is always in the headline. In addition the target company is always huge and there is a huge multi-bank debt package funding the acquisition, with mezzanine debt layers as well.

Private Equity in New Zealand and the private equity that Pohutukawa participates in, has virtually nothing in common with those headlines.

We invest in smaller mid sized companies with revenues of between $30m and $150m. We use bank funding in a number but not all of our deals. For example, three companies in our portfolio have no bank debt at all. Across the whole portfolio the average debt represents only 1.7 x annual pre-tax earnings. The large private equity deals you have read about have debt multiples of between 5 and 9x pre-tax earnings. As a result they are much riskier deals than the investments Pohutukawa makes.

Direct Capital focuses on two investment areas in the private company market.

1. We buy companies off owners who are usually aged between 55 and 70, in partnership with the existing managers in the company. We call this a succession buy-out. In New Zealand, company owners are predominantly in this age group and there are simply not enough trade buyers to buy them all.

2. Expansion capital, where a good company simply grows at a rate faster than the private shareholders can fund. Direct Capital has historically been a very good partner, injecting new equity capital in to these companies.

a. In the succession investments, it will be clear to you that each year these ageing company owners get older. This investment opportunity gets bigger each year. You can draw a good parallel with the superannuation arguments and New Zealand's ageing population. You should be advising all of your company owner friends in this age group to sell before the real rush commences!

   Direct Capital invests in a number of ways that allows the owner to sell all of the company in one go, or some of it and the rest later, and can stagger the retirement of the owner to suit his needs. A number of people don't sell their company because they are scared of the unknown; they don't know what to do with themselves after they sell.

b. In the expansion deals, the current climate is actually fantastic. While there was completely free-wheeling capital from the banks, many company owners chose to gear up rather than take on an equity partner. That option has been suddenly and definitely withdrawn. We are back to the old days where banks require a certain amount of equity in all deals.

Going Forward

We will invest in similar industries to those in our current portfolio. We will look at both the defensive investments with good long-term cash flows, but will also look at cyclical industries at lower prices in down times like we are experiencing at present. In private equity we are not shackled by current sentiment. If we make an investment today, sentiment will have changed dramatically at the time that we are looking at floating the business.

We are often investing in industries that raise people's eyebrows. For example, a number of people do not like retail, however in New Zealand good retailers have consistently made good money over the medium term, and one look at the rich list will confirm this. We have the opportunity in the private markets to do full due diligence on these companies before we invest and a number of them have sustainable advantages that their competitors have not.

Last year all companies in the portfolio performed fantastically. Some of this is testimony to the due diligence we undertake before we invest and some of it was due to the booming global economy that rubbed off on New Zealand. The first three months of this year have been much more sobering. There are no disasters but the slow-down is really noticeable. To put that in context however, they are performing way above where they were when we invested.

I will now give you a quick run-down of the individual companies in the portfolio….

In the annual report, there is a table for each company which sets out Pohutukawa's investment in each individual portfolio company. I need to remind you again that Pohutukawa is one investor in Direct Capital's private equity fund DCP III. We have set out both Pohutukawa's holding and the full Direct Capital % shareholding. I am sorry for this confusion, but the accounting rules reigned over a more commonsense approach.

For each million dollars Direct Capital invests, 45% comes from Pohutukawa.

COMPANIES WE HAVE INVESTED IN TO DATE:

1. Express Logistics – 50%

Express is a New Zealand business that has grown profitably to a turnover in excess of $150m. It has successfully expanded in Australia and around the world, organically and by acquisition. It handles freight matters primarily for Australasian importers and exporters such as customs clearance, warehouse and distribution and the whole logistics management issue.

It is in a similar type of business to NZX listed Mainfreight and Freightways and we continue to review listing opportunities for Express.

We are opening new facilities in new places such as LA and have, since we invested in Express, purchased 3 businesses, 2 in New Zealand and 1 in Sydney.

2. NZ Pharmaceuticals – 51%

NZP is an entirely export business, selling its active pharmaceutical ingredients to Asia, North America and Europe. The high NZD, which has spent much of the last 6 months at over 80c, has had a negative impact on NZP's profitability. Compounding the currency impact, one of NZP's key customers has cut back its volume requirements this year. As such, NZP's projected result for 2008 will be short of the record result achieved in 2007.

In light of these circumstances, NZP has made the decision to defer its planned public listing. In the meantime, the company focuses on growing its product range and customers including NZP's emerging glycotherapeutics business.

We mentioned in the annual report that NZP was again a finalist in the Annual Export Awards, this year winning the 'Agritech, Life Sciences and Biotechnology' category. Like all exporters, NZP will breathe a sigh of relief when the dollar falls back closer to historical levels.

3. Gluck

We invested into Melbourne based Gluck to finance Gluck into organic and acquisition growth opportunities in a similar but not replica part of the freight forwarding industry as Express.

The intention for all parties was to merge the two businesses for an IPO in Australia or New Zealand

Gluck is a similar sized business to Express Logistics and growing rapidly.

4. Triton – 47%

Triton is involved in the audiology sector, or the retailing and dispensing of hearing aids. You will recall the business we invested in, then named Professional Hearing Services, originally operated in Hamilton and Tauranga.

The last year has marked Triton's entry into the South Island with the acquisition of Canterbury Hearing. Triton has already opened a second Christchurch clinic, a third opens in July and hopefully a fourth one before the end of the year. There are currently 13 clinics.

The Waikato business has been expanded with the opening of a second clinic in Hamilton and a new clinic in Cambridge, while the Tauranga clinic has been greatly expanded.

Review of expansion into two other new regions is also underway.

Finally to support the growth in clinic numbers, investment has been made in group management, marketing, HR and finance personnel. John Ryder, one of the founders of Ryman, is a lead investor on Triton and is replicating a number of systems from Ryman which allowed it to grow organically but rapidly and remaining profitable on the way through.

All very positive steps towards Triton's aim of becoming a nationwide business in this high growth essential industry.

5. Paper Coaters – 83%

At our last AGM we had just announced our investment in Paper Coaters , a New Zealand business that has 65% of its sales in to the Australian market. Paper Coaters is a manufacturing business that laminates plastic, or aluminium foil on to paper. These products are widely used in the specialist packaging market. As an example, when you next tear open a sugar sachet at the café you'll notice on the inside of the paper a waxy sheen. This is the polymer and provides protection against moisture.

We are now almost 1 year into our investment in Paper Coaters and we are pleased with its performance. The Paper Coaters investment was a somewhat defensive investment we made recognising the changing economic environment we faced. Paper Coaters earnings are reasonably predictable and we are pleased to report that to date the company's earnings are above our investment case. The management group is performing well and we have an excellent working relationship with them.

Late last year we jointly worked on what we believe will be the first of several acquisitions, the acquisition of Australian based Trans Tec. Trans Tec does with plastic, what Paper Coaters does with Paper. This strengthens Paper Coaters' market position in Australasia and we remain very positive about the investment going forward.

6. Innovair – 28%

You may remember at the time of our investment in Innovair we said this was a small high growth company with exciting prospects, both locally and offshore. This has certainly proved to be the case, with the company achieving a number of milestones for the year ended 31 March. Earnings were up 70% on the prior year.

Innovair is very seasonal with 95% of sales achieved during the summer months when pests are most prevalent. This summer was an extremely successful one for the company. Innovair has had strong growth in New Zealand and a report released for the household insecticide market showed Innovair's growth at 148%. The company also achieved impressive sales growth in Australia where the product is earlier in its life cycle.

The company is continuing its plans for offshore growth with entry into South Africa underway and a number of initiatives to continue growth into other territories.

We are very pleased with what the company has achieved and have high hopes for what this company can achieve in the future.

7. GoBus – 79%

The GoBus investment was completed last December and the transition to new ownership has been smooth.

GoBus provides all the urban bus services in Hamilton and most Waikato towns. In addition, it provides about half the Waikato school bus services.

It owns a large depot in Hamilton and has depots and workshops throughout its network. It has 400 buses.

It is a significant coup for GoBus to have recently appointed Dallas Fisher as Chairman. Dallas is one of the two main executives of NDA who had acquired the business from its previous dairy company owners and transformed it into a highly successful global business. Dallas has a number of business interests and is well known within the Waikato region. We think he will be great in the Chairman role at GoBus.

The investment case with GoBus involves expanding the business through new contracts and acquisitions. Already significant work is underway in this regard and we are excited about the potential in this business. It has very predictable ongoing revenues.

BioPacificVentures

You will also recall that Pohutukawa participates in investments made by BioPacificVentures, whose investment mandate is health through food and food properties. BPV invests in conjunction with the Geneva-based venture capital group backed by Nestle and enjoys all of the advantages that a global group like Nestle can provide in these industry areas. You might well ask why Direct Capital partners with a global dairy giant based in Geneva when there is a perfectly good one based in NZ.

We have given you an outline of investments made through BPV in the annual report.

It is worth noting too that BPV can invest in food and health businesses together with Pohutukawa and DCPIII, and New Zealand Pharmaceuticals is a very good example of this.

New Investment

I am sorry we are not a position to announce this here. It is only a week or two away from completion.

It is in the manufacturing sector, has turnover of approximately $30m, has an excellent management team and position in its industry. Direct Capital has a 45% shareholding in the business.

NOTE:

There is consistent interest from acquirers in several of our portfolio companies at any one time and that is true as we speak.

As you know, Direct Capital is a long term holder of assets, but occasionally circumstances arise with management or co-shareholders that make it sensible to realise shareholdings.

Max was an example of that.

Max Fashions

Ironically, Max was not a popular investment at the time we made it. However, we analysed Max's performance over a 10 year period and noticed that it was an extremely resilient retailer even in down times. In good times, it performed a multiple of times better than its peers.

Without the benefit of due diligence you could say Women's Fashion is a risky business. In the Southern Hemisphere we would take issue with that. Here, we follow the Northern Hemisphere trends, focusing on their winners and eliminating things that didn't work. What we would say however, is that women's fashion in Australasia is very very competitive. To succeed in that competitive environment you need a first rate management group and in Max we had that.

We are very proud that we made 5 x our money in the Max investment and proud of the fact that it continues to succeed under Mary Devine and the EziBuy Group.

From the fund's perspective the Max realization allowed us to return 33 cents of the 40 cents you had invested at the outset and you virtually own the other 6 companies for nothing. It sets the Pohutukawa Fund up very well relatively early in its investment cycle.

To describe the transaction in individual terms, Pohutukawa invested 6.8 cents of its dollar share in Max and we returned 33.2 cents to you when we sold it, or in sharemarket terms, you bought a share for $6.80 and sold it for $33.20.

Tony Batterton handled the Max transaction from investment right through to the sale process, and was our Director on the Max board. Tony, stand up a take a bow**!!**

BOARD

As you see from the notice of AGM, John McDonald has agreed to join the board of PPE. We are delighted to have John involved at the business level after a long career in finance and commerce, and know from our discussions with him that he will be a very good governance director and guardian of your capital. Welcome aboard John.

Naturally we were sorry to see Jon Cimino resign and move to Dubai. I know there wasn't a great deal of press about it at the time, but Jon has moved to a job of real global significance with the Dubai Financial Group. He may well be one of the key architects over the next decade of how stock exchanges around the world will operate and who will own them. Apart from Bourse Dubai, DFG is involved directly or indirectly in the London Stock Exchange, NASDAQ, the Nordic Exchange Group and potentially other stock exchanges if you read the press. His training at Pohutukawa will stand him in good stead for this global role!

THE FUTURE OF POHUTUKAWA: POHUTUKAWA II

We have had preliminary discussions with ABN AMRO Craigs on capital raising for our next private equity fund. Direct Capital is proposing to commence fundraising later this year and given the success of the partnership in Pohutukawa we would like Pohutukawa II to be involved in Direct Capital's fourth private equity fund DCP IV.

The exact timing of this fundraising depends on the outcome of the four deals we are working on at present, but we would like to think that given investment performance to date, existing Pohutukawa investors would be favourably disposed to Pohutukawa II. We would expect the final call for Pohutukawa to be in the next 3-6 months.

We know from others who are actively involved in fundraising at present that the climate is very favourable towards private equity. Obviously the outlook for investing in private companies has improved significantly from the heady valuation days of 2006/7. In addition the volatility in private equity funds is significantly lower than investment in the mid markets of the ASX and the NZX, which is where we focus.

CONCLUSION

Thank you for your continued support of Pohutukawa. Last AGM we presented a very rosy picture for the portfolio companies. That continued throughout all of 2007. Your investments are in great shape.

We look forward to our investment activity this calendar year, and with the adaptions I mentioned above, we are excited at the prospects we are working on at present.

I would now like to hand you back to….