

Annual Report  
For the Period Ending 31 December 2009

**Pohutukawa**  
PRIVATE EQUITY II LIMITED





# Contents

Report to Shareholders	2
Manager's Report	5
Directors' Report	7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Cashflows	10
Notes to Financial Statements	11
Audit Report	22
Corporate Governance and Structure	23
The Pohutukawa Board	24
Committees	26
Directory	27



## Report to Shareholders

Dear Shareholder

I am pleased to present Pohutukawa II's first annual report. The report includes the financial statements for the period ending 31 December 2009 and commentary on our first investment and investment prospects for 2010.

2009 proved to be a very volatile year as the global financial crisis gradually abated. Whilst a number of bank-led turnaround transactions offered opportunity for investment we chose to stay with our model of investing alongside owners in good, profitable, well-managed companies. Most business owners through this period were internally focused rather than pursuing growth opportunities. However this changed in the latter part of the year. A number of the investment possibilities reviewed during the course of 2009 may come to fruition this year, so the investigations completed to date should prove worthwhile.

The highlight to date, albeit post this financial period, was our first investment in Transaction Services Limited, which occurred in January 2010 for an amount of \$5.7 million. Our financial statements for the period show this investment as a subsequent event.

### Pohutukawa II

Following the success of Pohutukawa I, Craigs Investment Partners and Direct Capital established a further private equity fund to provide retail investors with access to the private equity market.

Pohutukawa II was launched in November 2008 and closed 27 February 2009. The offer raised \$82.5 million during the worst period of the financial market meltdown.

Pohutukawa II coinvests with the Direct Capital IV fund in all investments it makes. The Direct Capital IV fund has raised \$325 million, including Pohutukawa's \$82.5 million.

The Board and management are confident that the next three to four years should be an exceptional period for investing in private companies as the economy gradually emerges from recession.

Direct Capital IV, including Pohutukawa, will be a continuation of what we have been doing since 2004 when Pohutukawa I was established. We will be investing in well-established private companies with proven profitable performance, an appropriate level of gearing, and providing them with:

- Capital to grow;
- Facilitating a change of ownership from an original owner to their management;
- Funding an acquisition of complementary business; or
- Investing in and helping a company through to a share market listing.

### New Investment

#### *Transaction Services Limited*

On 29 January Direct Capital, through its Direct Capital IV and Pohutukawa II funds, invested \$24 million to acquire a 49% interest in Transaction Services Limited, Australasia's largest third party recurring payment processing company.

Pohutukawa's stake in Transaction Services is \$5.7 million, or 11.6% of the company. This investment represented close to 7 cents per share of Pohutukawa shareholders' capital. This investment was made from existing cash, so no additional funds have been called from shareholders at this time.

### Investment Revaluations

The Manager will revalue portfolio investments at the end of each quarter. Under the private equity body AVCAL guidelines, (The Australian Private Equity & Venture Capital Association) these revaluations will be completed for all portfolio companies.

Transaction Services will be revalued as at 31 March 2010.

## 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 82.5 million stapled securities on issue, \$1 shares paid to 10 cents.

At balance date shareholders' funds were \$6.34 million.

Assets comprised:

- Cash \$6.13 million
- Receivables \$0.23 million

There were no investments at balance date.

The receivables figure includes interest accrued on deposits.

Trade creditors totalled \$27k.

Income was derived from interest of \$223k from short-term deposits with the National Bank and Craigs Investment Partners Cash Management Trust.

Operating expenses were \$2.12 million. Of the total operating expenses management fees were \$1.95 million and director fees \$96k.

The loss for the period was \$1.89 million dollars.

Table 1 shows the Pohutukawa II Performance Summary

### Pohutukawa Financial Performance Summary For the year ended 31 December 2009

	2009
	\$000
<i>Operating Results</i>	
Interest income	223
Operating expenses	(2,120)
Loss after tax	(1,897)
<i>Share performance</i>	
Stapled Securities on issue	\$1.00 82,500,000
Earnings per share	(\$0.023)
Net asset backing-cents per share 31-12-2009	\$0.077

### 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 review process; 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.

The Board also considered the management fee level during 2009 particularly in relation to the investment activity. The Board was satisfied that the Manager had performed in accordance with its prescribed activity level in order to warrant the management fees charged at this early stage of the fund. The Board recognised the number of potential deals reviewed. The Manager advised that it is focussed on making good investments. The work completed during and post the period is expected to produce further investment results, with the Transaction Services investment being the first example of this work completed during 2009.



## Report to Shareholders

---

### *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](http://www.pohutukawafund.co.nz)

The last sale price on 31 March 2010 was 14 cents while the net asset backing is close to 7.5 cents per share.

### *Annual Shareholders Meeting*

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

- **Date:** Wednesday, 19 May 2010
- **Time:** 2.45pm
- **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](mailto: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 we are certainly anticipating bringing you further positive investment news during the course of this year.

It is likely that any further investments will trigger the need to make a call and we will provide you with the required 30 days notice in this regard.

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

Yours sincerely,

**POHUTUKAWA PRIVATE EQUITY II**

John McDonald  
Chairman



## Manager's Report

---

The Manager has been busy during the period reviewing a large number of investment opportunities.

To date two investments have been approved by the Investment Committee of which the Transaction Services investment has proceeded.

We have a further two investments which are undergoing due diligence at present and we anticipate being in a position to make a formal announcement on at least one of these investment opportunities during the next quarter. The time it takes to complete investments in the private company arena can depend on the individual circumstances of the companies involved. Investing in private companies requires patience and a rigorous process.

For the year to December 2009 the Manager recorded a 33% increase in the number of investment opportunities registered compared to 2008. From these opportunities the Manager has met the principals of the firms and have progressed to the assessment stage a similar number of proposals to 2008.

In the current economic climate with the tightening of available capital, this provides further opportunity for Pohutukawa II and Direct Capital IV partners to secure investments in companies that have been proven performers and that require further investment capital to grow.

We reiterate that the investment appraisal and analysis process is thorough, and builds on Direct Capital's many years of experience in investing in private companies. With the experience of having invested in more than 65 companies, our belief in partnering with business owners and managers to continue creating growth and value is stronger than ever.

For us there is no better investment than investing alongside owners and managers of a well-run private company. They know their own business, their industry, the risks and opportunities better than anyone. They know where the right investment will make the biggest difference. With our capital and experience we can help owners achieve their goals. This is a proven private equity investment model that we continue to adhere to.



## Manager's Report

### TRANSACTION SERVICES LIMITED

[www.debitsuccess.co.nz](http://www.debitsuccess.co.nz)



Date of Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
January 2010	Financial Transaction Services	Pre-IPO	\$5,700	11.6

Total shareholding managed by Direct Capital 49%

#### Background

Transaction Services was established in 1994 and annually processes more than 13 million transactions on behalf of over 2000 clients, from their 500,000 customers in New Zealand and Australia.

Operating under the brands Debitsuccess and FFA Payscale, Transaction Services manages the payment processing function for clients in a wide range of industries including health and fitness facilities, sports clubs, property management companies, maintenance providers, home service providers, and insurance companies.

The Transaction Services model allows its clients customers to pay for goods or services on any frequency and over any time period, giving them the ability to match their cash flow with their payment commitments, without the penalty of incurring interest costs.

As a part of its service offering the group companies include a debt collection service and a call centre to handle

customer queries relating to their financial contractual relationship with their suppliers.

As a combined offering the companies clients experience considerable cost savings when outsourcing this component of their business, freeing up their time to deal with other aspects of their businesses.

#### Performance

The investment in Transaction Services was completed in January 2010. The trading performance of the business since then has been in line with expectations and the result for the financial year ending March 2010 represents a significant uplift on the previous year.

#### Outlook

Management remain focussed on growing customer numbers in New Zealand and Australia, within the businesses traditional fitness sector and with clients in a range of industries as diverse as insurance, childcare and telecommunications. The company recently launched its Online Management Gateway (OMG) product, which allows businesses to incorporate a direct debit facility into their websites, providing greater flexibility in the way online payments are completed. The addition of OMG is viewed as an important incremental offering for the business.

With an impressive track record, Transaction Services is an ideal investment for Direct Capital IV and Pohutukawa.



## Directors' Report

For the year ended 31 December 2009

The following table shows Directors holding office during the year and their remuneration paid or due and payable during the year :

	Fees \$	Date of appointment
J McDonald	30,000	4 November 2008
M Prendergast	30,000	19 November 2008
N J Craig	12,500	19 November 2008
F M Aldridge	12,500	19 November 2008

**Note:** Directors agreed to reduce their approved level of remuneration of \$100,000 to \$85,000 through to year ending 31/12/2010.

### Entries recorded in the interests register

The entries shown in the table 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.

### Directors' shareholdings and dealings in Pohutukawa as at 31 December 2009.

Pohutukawa Director Investment Disclosure 31 December 2009 (Directors holding office as at 31 December 2009)				
Investment Holding	J McDonald	M Prendergast	N J Craig	F Aldridge
	No. Securities	No. Securities	No. Securities	No. Securities
Pohutukawa II	100,000	25,000	100,000	Nil

Director

9 April 2010

Date

Director

9 April 2010

Date





## Statement of comprehensive income

For the year ended 31 December 2009

	<i>Note</i>	Consolidated 2009 \$	Parent 2009 \$
Interest income		223,641	223,641
Administrative expenses	4	<u>(2,120,359)</u>	<u>(2,120,359)</u>
<b>Operating loss</b>		(1,896,718)	(1,896,718)
Finance expenses - interest		-	-
<b>Loss before tax</b>		(1,896,718)	(1,896,718)
Income tax expense	5	-	-
<b>Loss for the period</b>		<u>(1,896,718)</u>	<u>(1,896,718)</u>
Other comprehensive income for the period		-	-
<b>Total comprehensive income for the period</b>		<u>(1,896,718)</u>	<u>(1,896,718)</u>
<b>Attributable to:</b>			
Equity holders of the parent		(1,896,718)	(1,896,718)
Minority interest	3 a	-	-
<b>Loss for the year attributable to the equity holders of stapled securities</b>		<u>(1,896,718)</u>	<u>(1,896,718)</u>

## Statement of changes in equity

For the period ended 31 December 2009

Consolidated	Attributable to equity holders of the parent			Minority interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 4 November 2008	-	-	-	-	-
Total comprehensive income for the period	-	(1,896,718)	(1,896,718)	-	(1,896,718)
Issue of share capital	8,241,895	-	8,241,895	-	8,241,895
Balance at 31 December 2009	<u>8,241,895</u>	<u>(1,896,718)</u>	<u>6,345,177</u>	-	<u>6,345,177</u>
<b>Parent</b>					
	Share capital	Retained earnings	Total equity		
Balance at 4 November 2008	-	-	-		
Total comprehensive income for the period	-	(1,896,718)	(1,896,718)		
Issue of share capital	8,241,895	-	8,241,895		
Balance at 31 December 2009	<u>8,241,895</u>	<u>(1,896,718)</u>	<u>6,345,177</u>		



## Statement of financial position

As at 31 December 2009

	<i>Note</i>	Consolidated 2009 \$	Parent 2009 \$
<b>Assets</b>			
Receivables and prepayments	6	227,201	227,201
Taxation receivable		8,841	8,841
Cash and cash equivalents	7	<u>6,136,931</u>	<u>6,136,931</u>
<b>Total current assets</b>		<u>6,372,973</u>	<u>6,372,973</u>
<b>Total assets</b>		<u>6,372,973</u>	<u>6,372,973</u>
<b>Equity</b>			
Issued capital	9	8,241,895	8,241,895
Retained losses		<u>(1,896,718)</u>	<u>(1,896,718)</u>
<b>Total equity attributable to equity holders of the parent</b>		<u>6,345,177</u>	<u>6,345,177</u>
<b>Minority interest</b>			
<b>Total equity attributable to equity holders of stapled securities</b>	9	<u>-</u> <u>6,345,177</u>	<u>-</u> <u>6,345,177</u>
<b>Liabilities</b>			
Trade and other payables	10	<u>27,796</u>	<u>27,796</u>
<b>Total current liabilities</b>		<u>27,796</u>	<u>27,796</u>
<b>Total liabilities</b>		<u>27,796</u>	<u>27,796</u>
<b>Total equity and liabilities</b>		<u>6,372,973</u>	<u>6,372,973</u>

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

	<i>Note</i>	Consolidated 2009 \$	Parent 2009 \$
<b>Cash flows from operating activities</b>			
Interest received		209,236	209,236
Income taxes paid		(8,841)	(8,841)
Cash paid to suppliers		<u>(2,305,359)</u>	<u>(2,305,359)</u>
<b>Net cash from operating activities</b>	<i>11</i>	<u>(2,104,964)</u>	<u>(2,104,964)</u>
<b>Cash flows from financing activities</b>			
Proceeds from share calls		8,250,000	8,250,000
Transaction costs		<u>(8,105)</u>	<u>(8,105)</u>
<b>Net cash from financing activities</b>		<u>8,241,895</u>	<u>8,241,895</u>
Net movement in cash and cash equivalents		6,136,931	6,136,931
Cash and cash equivalents at 4 November 2008		-	-
<b>Cash and cash equivalents at 31 December 2009</b>	<i>7</i>	<u>6,136,931</u>	<u>6,136,931</u>



## Notes to the consolidated financial statements

### 1. Reporting entity

Pohutukawa Private Equity II Limited (the “Company”) is a company incorporated and domiciled in New Zealand. Pohutukawa Private Equity II and the 25 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 14 month period ended 31 December 2009 comprise the Company and 25 Investment Companies (together referred to as the “Group”).

Pohutukawa Private Equity II 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

These 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.

#### (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.

There are no comparatives to these financial statements as Pohutukawa Private Equity II Limited was incorporated on 4 November 2008. These financial statements cover the period from incorporation until the Company’s balance date, being 31 December 2009 (14 month period).

#### (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 note:

- Note 16 – 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 II Limited, investors also hold 100 preference shares in Pohutukawa Private Equity II Limited as well as one preference share in each of the 25 Investment Companies. All of these shares are stapled securities. This stapling arrangement creates a business combination by contract alone without any individual entity obtaining an ownership interest. The Group has designated Pohutukawa Private Equity II Limited as the acquirer and the parent entity for the purpose of preparing consolidated financial statements. The 25 companies combining under the stapling arrangement are designated as the Investment Companies who invest in Portfolio Companies.

## Notes to the consolidated financial statements

### 3. Significant accounting policies (continued)

#### (ii) 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.

#### (b) Trade and other receivables

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

#### (c) 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.

#### (d) Impairment

The carrying amounts of the Group's assets 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.

#### (e) Share capital

##### (i) Preference share capital

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

preference share capital classified as equity are recognised as distributions within equity.

##### (ii) Repurchase of share capital

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

##### (iii) Dividends

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

#### (f) 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.

#### (g) Trade and other payables

Trade and other payables are stated at cost.

#### (h) Revenue

##### (i) Services rendered

Revenue from services rendered (e.g. Management Fees) is 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.

#### (i) Financing expenses

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



## Notes to the consolidated financial statements

### 3. Significant accounting policies *(continued)*

#### (j) 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 statement of financial position 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.

#### (k) 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.

#### (l) New standards and pronouncements relevant to the Group

##### 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.

#### (m) Goods and services tax (GST)

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

## Notes to the consolidated financial statements

### 4. Administrative expenses

	Consolidated 2009	Parent 2009
Management fees	1,949,063	1,949,063
Advisory fees	31,644	31,644
Directors' fees	96,348	96,348
Other administrative expenses	43,304	43,304
	<u>2,120,359</u>	<u>2,120,359</u>

The following items of expenditure are included in other administrative expenses:

Auditor's remuneration to KPMG comprises:

Audit of financial statements	6,822	6,822
-------------------------------	-------	-------

### 5. Income tax expense

Recognised in the statement of comprehensive income

	Consolidated 2009	Parent 2009
Income tax expense in statement of comprehensive income	<u>-</u>	<u>-</u>

### Reconciliation of effective tax rate

	2009	2009
Loss before tax	<u>(1,896,718)</u>	<u>(1,896,718)</u>
Income tax expense at 30% tax rate	(569,015)	(569,015)
Non-deductible expenses	6,530	6,530
Tax losses not recognised in the statement of comprehensive income	562,485	562,485
Total income tax expense in statement of comprehensive income	<u>-</u>	<u>-</u>

### 6. Receivables and prepayments

	Consolidated 2009	Parent 2009
GST receivable	203,852	203,852
Other receivables due from related parties	19,065	19,065
Prepayments	4,284	4,284
	<u>227,201</u>	<u>227,201</u>

As a result of an Inland Revenue Department audit of the background structure of Pohutukawa Private Equity II Limited, all GST refunds owing to the Company have been withheld at 31 December 2009. The Company expects these refunds to be released at the conclusion of the audit.

As at 31 December 2009, no trade receivables are considered past due.

## Notes to the consolidated financial statements

### 7. Cash and cash equivalents

	Consolidated 2009	Parent 2009
Call deposits	51,994	51,994
Short-term deposits	6,084,937	6,084,937
Cash and cash equivalents in the statement of cash flows	<u>6,136,931</u>	<u>6,136,931</u>

All Call deposits are held within Craigs Investment Partners Cash Management Trust Limited. The weighted average interest rate for 2009 on call deposits is 3.22%.

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 4.02%.

### 8. Loans and borrowings

#### Short-term credit facility

A short-term line of credit has been arranged with Westpac Bank, of up to \$8,000,000 for terms of between 60 and 90 days depending on the purpose. The facility will be utilised for working capital as required, and to bridge calls from shareholders. During the period to 31 December 2009 the facility has not been used.

### 9. Share capital

Consolidated	Investment Co's Preference shares 2009	PPE II Ordinary shares 2009	PPE II Preference shares 2009
<i>In millions of shares</i>			
On issue at 4 November 2008	-	-	-
Issue of shares	<u>2,062.5</u>	<u>82.5</u>	<u>8,250</u>
On issue at 31 December 2009	<u>2,062.5</u>	<u>82.5</u>	<u>8,250</u>
<b>Parent</b>		<b>Ordinary shares 2009</b>	<b>Preference shares 2009</b>
<i>In millions of shares</i>			
On issue at 4 November 2008		-	-
Issue of shares		<u>82.5</u>	<u>8,250</u>
On issue at 31 December 2009		<u>82.5</u>	<u>8,250</u>

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

At 31 December 2009, the share capital of the Company comprised 82,500,000 ordinary shares, and 8,250,000,000 preference shares. In addition, there are 2,062,500,000 preference shares in the 25 Investment Companies (82,500,000 in each).



## Notes to the consolidated financial statements

### 9. Share capital (continued)

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 II shares have been issued at \$1.00 per share, of which \$0.10 has been paid on allotment. Subsequent calls will be in tranches, for a minimum of \$0.10 per share and subject to 30 days advance notice. Any residual balance will be payable in full on the fifth anniversary of allotment. Issue costs of \$8,105 have been offset against the share capital received.

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.

### 10. Trade and other payables

	Consolidated 2009	Parent 2009
Trade payables	27,796	27,796
	<u>27,796</u>	<u>27,796</u>

### 11. Reconciliation of loss after taxation to the net cash flow from operating activities

	Consolidated 2009	Parent 2009
Loss for the period	(1,896,718)	(1,896,718)
<b>Movement in Working Capital</b>		
Change in trade and other receivables	(227,201)	(227,201)
Change in income tax receivable	(8,841)	(8,841)
Change in trade payables and accruals	27,796	27,796
Net cash flow from/(to) operating activities	<u>(2,104,964)</u>	<u>(2,104,964)</u>

## Notes to the consolidated financial statements

---

### 12. Financial risk management

#### Introduction and overview

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

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

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

#### Equity price risk

The Group has policies in place to mitigate equity price risk, particularly in its investments. This includes detailed analysis of prospective equity investments.

Investments in unlisted equity securities are, by their nature, less liquid and subject to greater equity price risk than listed securities.

#### Credit risk

Exposure to credit risk arises in the normal course of the Group's business from its receivables and bank balances. The Group does not require collateral in respect of financial assets. At the reporting date there were 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 applies to Pohutukawa Private Equity II Limited.

#### Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business from bank accounts and short-term deposits. 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 fixed or floating rates.

#### Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances and short-term deposits. At the reporting date the effective interest rates for bank balances for 2009 is 2.50% and short-term deposits for 2009 is 3.38%.

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

### 12. Financial risk management (continued)

#### Interest rate risk – repricing analysis

	<i>Note</i>	<b>Total</b>	<b>Non interest bearing</b>	<b>6 months or less</b>
<b>Consolidated 2009</b>				
Cash and cash equivalents	7	6,136,931	-	6,136,931
<b>Total</b>		<b>6,136,931</b>	<b>-</b>	<b>6,136,931</b>
<b>Parent 2009</b>				
Cash and cash equivalents	7	6,136,931	-	6,136,931
<b>Total</b>		<b>6,136,931</b>	<b>-</b>	<b>6,136,931</b>

#### 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 decrease of one percentage point in interest rates on its cash and cash equivalents would decrease the Group's profit before income tax by approximately \$59,638 over a one-year period.

#### Capital management

The Group's capital comprises share capital.

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

### 12. Financial risk management (continued)

#### Classification and fair values

	<i>Note</i>	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
<b>Consolidated 2009</b>						
<b>Assets</b>						
Cash and cash equivalents	7	-	6,136,931	-	6,136,931	6,136,931
Receivables and prepayments	6	-	227,201	-	227,201	227,201
<b>Total assets</b>		<b>-</b>	<b>6,364,132</b>	<b>-</b>	<b>6,364,132</b>	<b>6,364,132</b>
<b>Liabilities</b>						
Trade and other payables	10	-	-	27,796	27,796	27,796
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>27,796</b>	<b>27,796</b>	<b>27,796</b>

	<i>Note</i>	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
<b>Parent 2009</b>						
<b>Assets</b>						
Cash and cash equivalents	7	-	6,136,931	-	6,136,931	6,136,931
Receivables and prepayments	6	-	227,201	-	227,201	227,201
<b>Total assets</b>		<b>-</b>	<b>6,364,132</b>	<b>-</b>	<b>6,364,132</b>	<b>6,364,132</b>
<b>Liabilities</b>						
Trade and other payables	10	-	-	27,796	27,796	27,796
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>27,796</b>	<b>27,796</b>	<b>27,796</b>

## Notes to the consolidated financial statements

### 13. Capital commitments and contingencies

An earnout payment for the Manager may be due and payable at a future date.

### 14. Related parties

#### Identity of related parties

The Company has a related party relationship with its Investment Companies (see note 16). Craigs Investment Partners Limited and Direct Capital IV Management Limited own 50% each of Pohutukawa II Management Limited, the Manager of Pohutukawa Private Equity II Limited. Certain directors of the Company are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital IV Management Limited.

#### Transactions with related parties

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

- Management fees paid to Pohutukawa II Management Limited totalled \$1,536,563.
- Craigs Investment Partners Limited paid certain expenses of Pohutukawa Private Equity II Limited. As at 31 December 2009, no balance remained owing to Craigs Investment Partners 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. At 31 December 2009 the balance held was \$4,551,984.

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.

#### Transactions with key management personnel

	Consolidated	Parent
	2009	2009
Directors fees (total remuneration)	<u>96,348</u>	<u>96,348</u>

The balance owing to key management personnel at 31 December 2009 is \$22,031.

### 15. Subsequent events

On 29 January 2010 Pohutukawa Private Equity II Limited completed its first investment into Transaction Services Limited for an amount of \$5,700,000. This investment was made from existing cash resources.

## Notes to the consolidated financial statements

### 16. Group entities

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

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



## Audit Report



### To the shareholders of Pohutukawa Private Equity II Limited

We have audited the financial statements on pages 8 to 21. The financial statements provide information about the past financial performance of the company and group and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on pages 11 to 13.

### 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 14 month period 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 and group as far as appears from our examination of those records;
- the financial statements on pages 8 to 21:
  - 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 14 month period ended on that date.

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

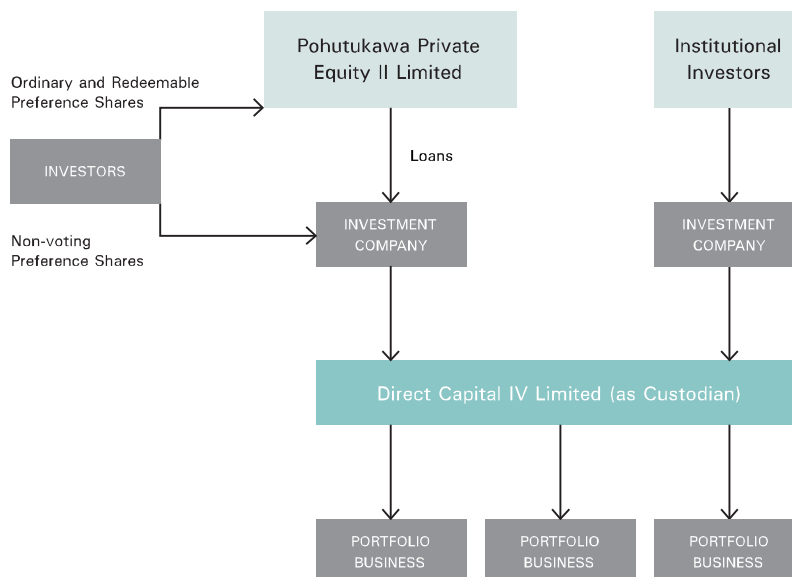
**KPMG**

Tauranga

## Corporate Governance & Structure

Pohutukawa Private Equity II 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 25 special purpose vehicles (investment companies), which invest in the portfolio companies. These are called stapled securities. There are 82.5 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.

Pohutukawa II intends to co-invest with Direct Capital IV in each investment in proportion to the level of Committed Capital of each of Pohutukawa II and Direct Capital IV. The structure is shown schematically below:



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. 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 II Board

---

The Board of Pohutukawa Private Equity II 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 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 Limited and a number of other private companies.

## The Pohutukawa II Board

---



**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 Limited, 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 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.

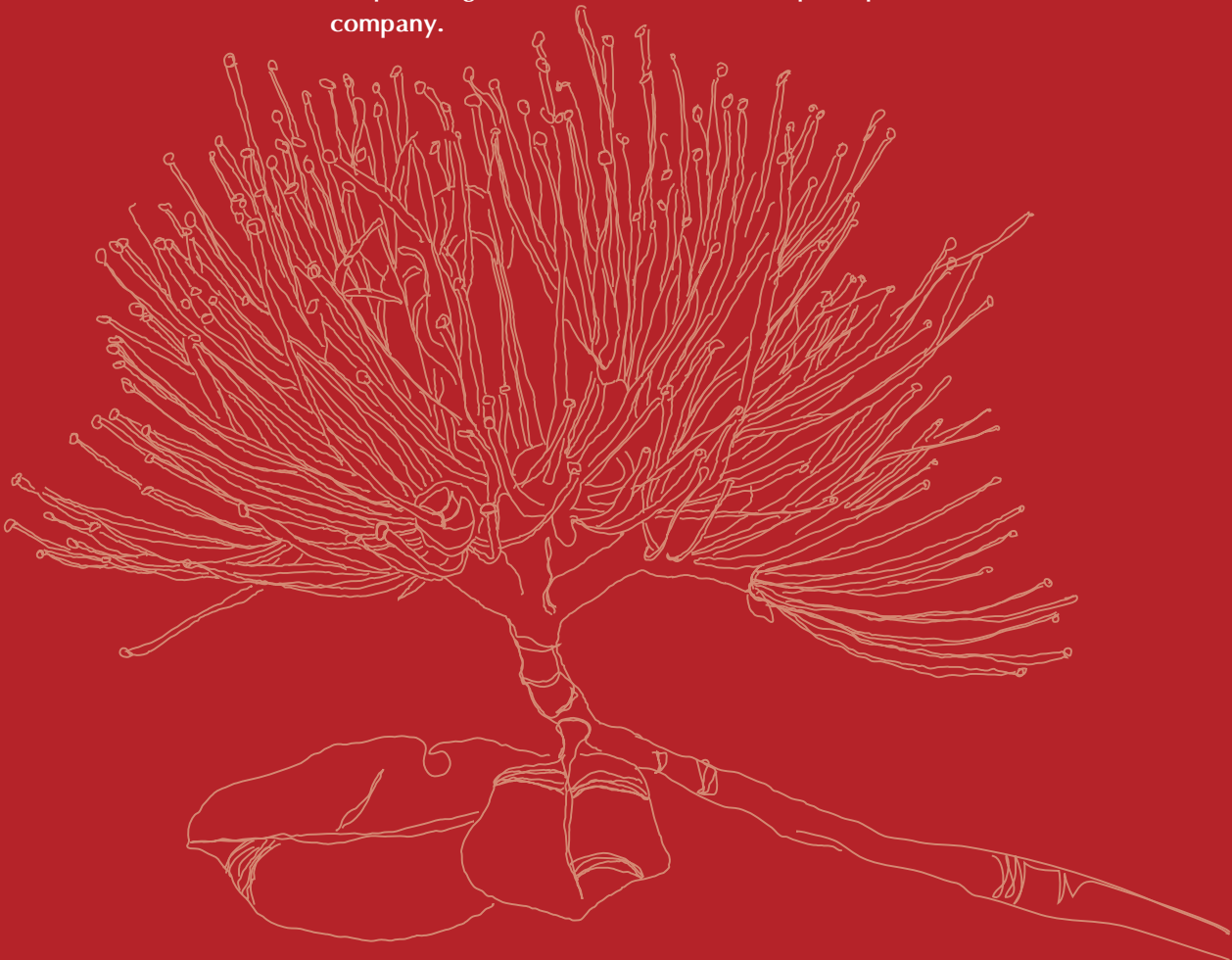
## Committees

---

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 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 II

John McDonald  
Neil Craig  
Maurice Prendergast  
Frank Aldridge

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

---

### OFFICES OF POHUTUKAWA

Pohutukawa Private Equity II Limited  
Craigs Investment Partners House  
158 Cameron Road  
PO Box 13155  
Tauranga  
Phone: (07) 5774 727  
Fax: (07) 928 6443

---

### AUDITORS

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

---

### MANAGER

Pohutukawa II Management Limited  
Craigs Investment Partners House  
158 Cameron Road  
PO Box 13155  
Tauranga  
Phone: (07) 5774 727  
Fax: (07) 928 6443

---

### SHARE REGISTRY

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

---

### SOLICITORS

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



