

ANNUAL REPORT

For the year ended 31 December 2015



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Report to Shareholders

April 2016

Dear Shareholder

I am pleased to present Pohutukawa's 2015 Annual Report. The report includes the financial statements for the financial year ended 31 December 2015 with commentary on the performances of our portfolio companies and their prospects for 2016.

Portfolio Overview

The Pohutukawa Fund is now in its twelfth year. As at 31 December Pohutukawa had realised total investment proceeds of \$66.5 million (from a total of \$53 million subscribed) and you have received back by way of capital and imputed dividend returns an amount of \$1.11 gross per share from your original \$1.00 per share investment.

Our shareholding in New Zealand Pharmaceuticals (NZP) was realised on 31 March 2016, which we anticipate will result in further distributions to shareholders of approximately 48 cps shortly. Further details on this transaction and distribution will be provided under separate advice to Pohutukawa shareholders.

Following the sale of NZP there are three direct investments remaining along with the investments through BioPacificVentures. The two largest investments (New Zealand Pharmaceuticals and New Zealand King Salmon) represented approximately 95% of the remaining portfolio value at 31 December 2015.

At 31 December the portfolio fair value was \$40.6 million.

We also hold approximately \$1.5m of cash as at 31 December to fund any follow-on investments and working capital of the Fund.

Distributions to Shareholders

Pohutukawa made a 2.5cps gross distribution payment during the financial period.

Net asset backing at 31 December 2015 (after provision for earnout) was 62 cents per share (cps).

Table 1 - Summary of Investor Returns

Gross Return to 31 December 2015	
Original investment	\$1.00
Gross Return to Investors	
December 2007	0.35
November 2008	0.09
June 2009	0.02
December 2009	0.18
March 2010	0.10
March 2011	0.03
May 2012	0.32
May 2015	0.02
Gross Return	1.11
Assessed Net Asset Value 31 December 2015*	0.62
Estimated Gross Return*	\$1.73

* Includes provision for earnout

A summary of gross returns made to Shareholders is shown in Table 1.

Current Portfolio

New Zealand Pharmaceuticals (NZP) once again produced a strong performance. Performance for the FY15 year was ahead of company expectations at both the revenue and EBITDA levels and represented the highest ever levels of revenue and EBITDA achieved by the Company. NZP repaid all shareholder loans during the period.

New Zealand King Salmon (NZKS) again experienced a lift in export sales volumes and returns due to a positive global salmon market. Full year EBITDA was above company expectations and above last year. The Ora King brand continues to grow export sales. Good progress has been made in developing two of the three new marine farms.

Stratex continues to improve its revenue and earnings. The lift in revenue is across most key customers and in particular the company is benefitting from new contract revenues secured during the last eighteen months. Two recent material contract wins will underpin FY17 growth.

Fishpond revenue growth accelerated during the year with improved gross profit performance.



Report to Shareholders

Follow-on Investments

Direct Capital III and Pohutukawa made an investment commitment to provide up to \$2 million to Stratex to help with gearing the business for the new contracts being secured. This loan has now been fully advanced. Pohutukawa has now advanced \$787,174.

The focus remains on providing financial support to our remaining portfolio companies as required for their growth strategies. We have sufficient cash available should portfolio companies require follow-on investment which meets our investment criteria.

Economic outlook for 2016

The NZ/AU dollar and NZ/US dollar cross rates have tracked downwards from the very high levels seen a year ago. The respective rates at 31 March were NZ/AU 0.90 and NZ/US 0.69 (Bloomberg). A weaker NZ dollar does help our exporting company returns. The economic pointers for the New Zealand economy continue to be positive with expectations for continued low inflation and interest rates, and ongoing modest growth, although the dairy sector downturn will be a drag on economic growth.

Portfolio Position

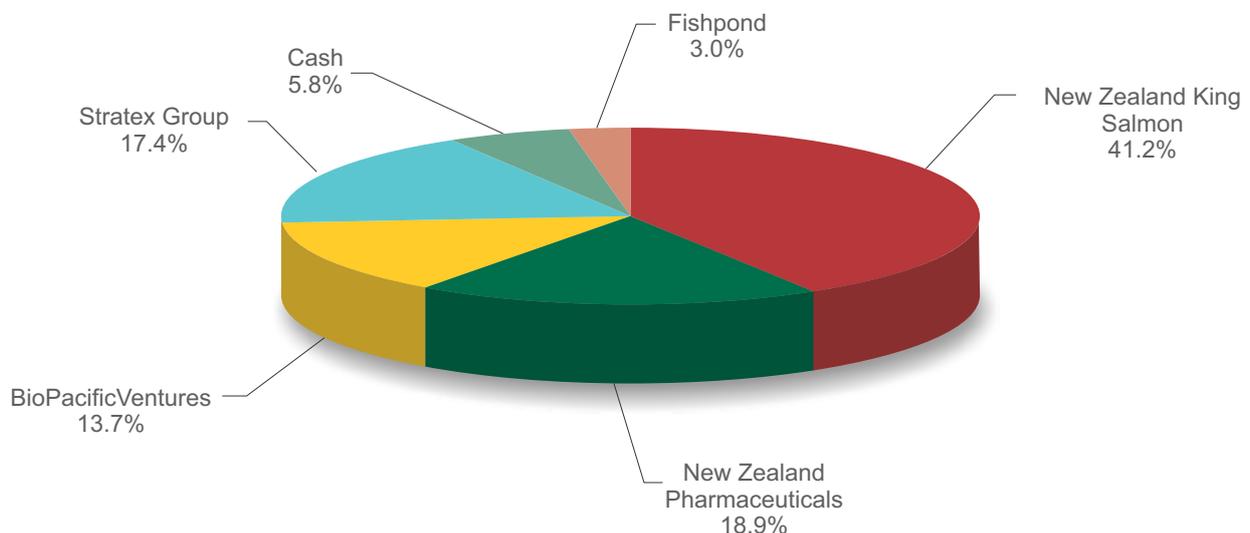
The total value of the portfolio company investments (excluding cash) at the end of the financial period to 31 December 2015 was \$40.6 million, a significant uplift from 2014's portfolio value of \$26.4 million.

This was mainly as a result of New Zealand Pharmaceutical's revaluation.

A breakdown of our investments and cash position at 31 December 2015 are shown in *Chart 1*, while *Chart 2* shows the investment portfolio's industry sector weightings.

Chart 1 - Pohutukawa investments at cost

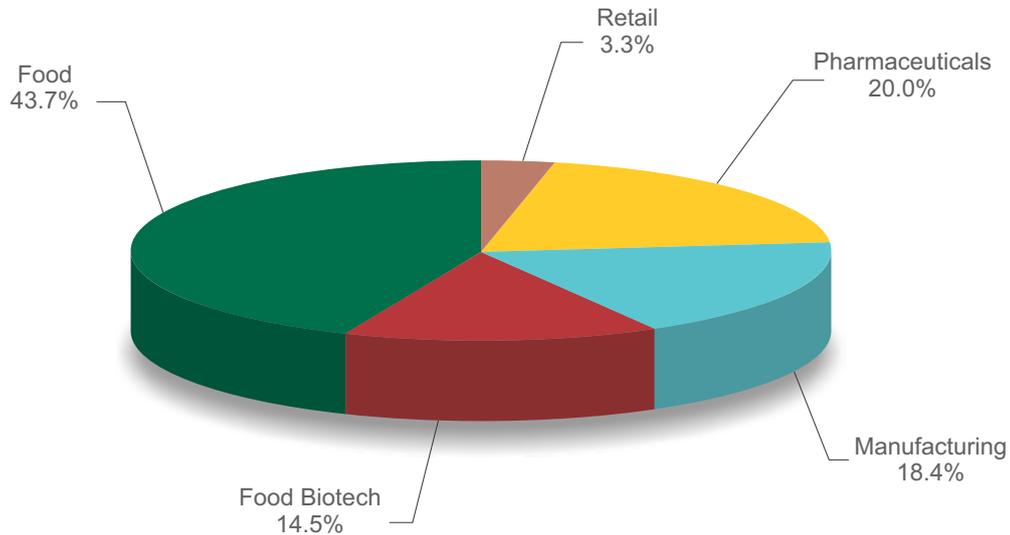
Pohutukawa Investments 31 December 2015



Report to Shareholders

Chart 2 - Industry sector exposure

Industry Sector Exposure 31 December 2015



Portfolio Company Investment Valuations

The Manager revalues the portfolio company investments each quarter using the International Private Equity & Venture Capital valuation guidelines. Revaluations are completed for all portfolio companies.

At 31 December 2015 the Manager valued the investments at \$40.6 million. This value includes shareholder loans that the Pohutukawa group has made to portfolio companies. The company revaluations are based on the respective company financial performances to 31 December 2015.

Table 2 shows the cost of investments at \$23.8 million.

Table 2 Summary of Portfolio Company Investments

Summary of Current Investments at Cost to 31 December 2015	Date of Investment	Industry	Investments at Cost (NZ\$000)	Pohutukawa Shareholding %
Direct Investments				
NZP Holdings Limited	18 Nov 05	Pharmaceutical	4,775	15.6
Stratex Group Limited	1 May 07	Manufacturing	4,386	32.8
New Zealand King Salmon Investments Limited	22 Sep 08	Food	10,396	10.8
Fishpond Limited	12 Oct 09	Retail	772	4.5
Total Direct Investments			20,329	
BioPacificVentures Investments		Food Biotech	3,460	
Pohutukawa Investments Total Cost			\$ 23,789	



Report to Shareholders

Portfolio Companies – Growth Strategies

The Manager continues to support the portfolio companies' growth strategies, although we continue to review any opportunities which crystalise value.

Annual Financial Statements 31 December 2015

Our financial statements for the year ended 31 December 2015, Directors' Report and KPMG Audit Report are included in this annual report.

As at 31 December 2015 Pohutukawa had 53 million stapled securities on issue, fully paid to \$1.

At balance date shareholders' funds were \$32.7 million, equivalent to a net asset backing of 62 cps. The Fund is in a strong financial position and has no debt.

Assets comprised:

• Investments	\$32.2 million
• Loans to Portfolio Companies*	\$8.4 million
• Cash	\$1.5 million
• Loans & Receivables	\$0.3 million

*Loans to portfolio companies are direct shareholder loans made by Pohutukawa to these companies on the same basis as other shareholders in these investee companies.

The item *non-controlling interest* in the statement of financial position refers to the equity of the Investment Companies. These non-controlling interests are attributable to Pohutukawa shareholders as a result of their preference shares held in the Investment Companies.

Dividend income of \$88,500 was received. Interest income of \$213,523 was also received from our bank deposits and recognised from shareholder loans. There was other income of \$106,000.

The investment portfolio was re-valued under the fair value method at 31 December 2015. There was a \$14.34 million positive movement in the fair value of investments compared to the previous year's \$1.3 million uplift in fair value.

There was also a loan impairment of \$106,958 relating to the write-off of a loan to Horizon Science Pty Ltd. There was a \$1.54 million reversal of loan impairment relating to New Zealand King Salmon.

Report to Shareholders

Administrative expenses were \$1.02 million, (2014: \$1.07 million).

As there is now more certainty that an earnout performance payment will be paid to entities associated with the manager a provision of \$9.67 million has been provided for in the accounts this year. The earnout is calculated at 20% of the net returns of Pohutukawa provided first that shareholders have received back in distributions their original investment plus a pretax compound return of 8% per annum.

The profit for the financial year was \$5.48 million, compared to a \$1.3 million loss recorded in 2014.

Table 3 shows the Pohutukawa Financial Performance Summary for the year ended 31 December 2015.

Table 3 - Pohutukawa Financial Performance Summary

Pohutukawa Financial Performance Summary			
For the year ended 31 December 2015			
	2015	2014	
	\$000	\$000	
Operating Results			
Interest income	213	57	
Dividend income	89	301	
Other income	106	106	
Gain/(Loss) on sale of investments	-	237	
Change in fair value of investments	14,335	1,258	
Loan impairment/Reversal of loan impairment	1,437	(2,231)	
Earnout provision	(9,672)	-	
Administrative expenses	(1,024)	(1,073)	
Profit/(Loss) before tax	5,484	(1,345)	
Tax expense	-	-	
Profit/(Loss) after tax	5,484	(1,345)	
Share performance			
Stapled Securities on issue	\$1.00	53,000,000	53,000,000
*Estimated Net Asset backing-cents per share	\$0.62	\$0.41	

* Includes provision for earnout.

The Manager

One of the roles of the Pohutukawa Board is to review the Manager's performance. This review was undertaken for the 2015 financial period. The Board considered the services and activities of the Manager including: all aspects of the investment management process and portfolio management; the fund's administration; investor communications; statutory reporting and governance support for the Board. The Board believes the Manager is performing to the expected standards in all respects.

Follow-on Investment Prospects

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

All the portfolio companies have growth strategies in place. Pohutukawa is in a strong financial position to fund such growth.

We will continue to keep you informed of any material investment activity through press announcements, or news updates on our website.

Secondary Market

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

The Board issued a do not sell recommendation in November 2015 due to certain capital initiatives occurring in the portfolio, until the outcome of the initiatives was more definite. There has been limited trading activity and the last sale price was 50 cents. At 31 December 2015 the net asset backing was approximately 62 cps which is after allowing for the earnout fee payable of approximately 18.2 cps based on valuations to 31 December 2015.



Report to Shareholders

Annual Shareholders Meeting

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

Date: Wednesday, 11 May 2016

Time: 2.30pm

Place: Craigs Investment Partners Limited, Level 32,
Vero Centre, 48 Shortland Street, Auckland

RSVP By 2 May 2016. Contact Peter Lalor on 07 927 7927
or enquiries@pohutukawafund.co.nz

We look forward to seeing you at this meeting.

Thank you for your ongoing support of Pohutukawa Private Equity.

If you have any queries regarding your investment in Pohutukawa, please call your Investment Adviser or Peter Lalor at Pohutukawa Management on 07 927 7927.

Yours sincerely

POHUTUKAWA PRIVATE EQUITY LIMITED

A handwritten signature in black ink that reads "John McDonald". The signature is written in a cursive style and is followed by a horizontal line.

John McDonald
Chairman



Manager's Report on Portfolio Companies

The Manager is very pleased to report on the successful portfolio performance for the year ended 31 December 2015.

The highlight of the year was the significant uplift in value in NZP directly attributable to the implementation of the growth strategies funded over the previous five years. As a result of this success and increasing requirement for further expansion capital the company has attracted the support of a new internationally focussed investor.

With direct investments, and through BioPacificVentures, 95% of the 31 December 2015 net asset value was attributable to New Zealand Pharmaceuticals (NZP) and New Zealand King Salmon (NZKS).

As each portfolio company implements and refines its growth strategy the Manager continues to be actively engaged and contributes on the board of each portfolio company. A significant focus during the past twelve months has been the strategic initiative at NZP. This resulted in the realisation of our shares in the company on 31 March 2016. NZP is an exciting company which we are proud to have been involved with for over ten years. During our investment the company grew its business materially, and generated significant imputed dividends – a key objective at the outset of our investment.

Whilst NZP has now been realised, the Manager continues to encourage the remaining portfolio companies to focus on bold initiatives which generate value. We maintain an eye towards opportunities to crystallise appropriate value where circumstances require.

The financial year included a number of key initiatives within these companies:

- NZP was able to increase production following a significant investment in 2014 expanding its factory production capacity resulting in significant growth in earnings as a result. In addition, favourable foreign exchange rates and continued strong global demand for its cholic acid products underpinned performance;
- In 2014 NZKS was finally granted three new 35 year salmon farm licenses after a protracted appeal process. Implementing two of these farms commenced in 2015. This is a critical strategic initiative to enable the company to significantly increase production capacity. With the two new farms in production, the company anticipates this to result in increased harvest volumes in late 2016. The third farm is expected to come into production during 2017.

In the smaller portfolio companies;

- As a result of the factory print expansion, partly funded by Pohutukawa investors, Stratex Group has successfully tendered for new print contracts. A further two significant contracts are progressing which, if successful will further increase earnings in 2017.
- Fishpond has improved its financial performance, and is performing to expectations within a fast moving online landscape.

We continue to record our appreciation towards our management partners within the portfolio companies which maintained solid progress during another demanding year.

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

Manager’s Report on Portfolio Companies

NEW ZEALAND PHARMACEUTICALS

www.nzpharmaceuticals.com



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
November 2005	Pharmaceuticals intermediates	MBO	\$4,775	15.6*

* Total shareholding managed by Direct Capital 50.3%

Background

New Zealand Pharmaceuticals (NZP) is an international supplier of specialised biopharmaceuticals and carbohydrates. In particular, it is a world leader in the manufacture of bile acids and its main product cholic acid is the main intermediate used to produce a number of liver disease related pharmaceuticals. In addition to its animal by-products business (of which cholic acid is its largest), NZP also produces a number of synthetic carbohydrate products.

particularly with the acquisition of Dextra Laboratories in the UK in 2009, and in its GMP manufacturing facilities to increase capacity and technical capability. Over this time the business achieved an attendant step change in its size, profitability and market position.

NZP’s expansion strategy will continue with the new capital committed to invest further in the company to enable it to

continue its growth of recent years and to capitalise on its recent advances in bile acid chemistry.

The investment has been successful for Direct Capital and Pohutukawa resulting in distribution of a significant level of imputed dividends during our involvement with the company, and the realisation proceeds from the sale transaction.

Realisation

Following a strategic review by NZP to introduce a new investor, Pohutukawa’s shareholding in NZP was realised in March 2016.

Direct Capital and Pohutukawa acquired their shareholding in NZP in 2005 and since then NZP has undertaken significant investment both in terms of its R&D capability,



Manager’s Report on Portfolio Companies

NEW ZEALAND KING SALMON

www.kingsalmon.co.nz



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
September 2008	Food	Expansion	\$10,396	10.8*

* Total shareholding managed by Direct Capital 41.6%

Background

Based in Nelson with farms in Marlborough and employing over 400 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 Ora King, Regal and Southern Ocean.

Performance

Revenues and earnings both rose in the latest financial year. This reflected strong market demand for the product, particularly international demand. The Ora King branded product is also proving to be successful in all markets.

During 2015, the Monterey Bay Aquarium Seafood Watch (a globally respected consumer guide) rated New Zealand marine farmed salmon as “Green” meaning it is a “Best Choice” for consumers. New Zealand salmon is the first and only ocean-farmed salmon to achieve the green / Best Choice rating globally. The rating is a strong endorsement of New Zealand King Salmon’s sustainability credentials. As a result of this accreditation, North American demand has increased rapidly and is forecast to continue to be very strong for 2016.

Outlook

Implementation of the new farms at Waitata and Ngmahau continues to proceed to plan. The first harvest from a new farm is expected in the latter half of 2016. Plans to implement the third new farm have also been brought forward.

The Manager has been reviewing the capital requirements and funding options for the phased establishment of each new farm and associated working capital requirements.



Manager’s Report on Portfolio Companies

STRATEX GROUP

www.stratexgroup.co.nz



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
May 2007	Manufacturing	MBO	\$4,386	32.8*

* Total shareholding managed by Direct Capital 83.2%

Background

Stratex is a manufacturer of complex base materials used in the paper, food and industrial packaging markets of NZ and Australia. Stratex extrudes and laminates polymer (plastic) and foil on to paper and film, producing products such as foil and non-foil food bags, food sachets, lidding materials, specialty cheese wraps, butter wrap, insulation materials, and mill wrap.

Performance

After a three year investment programme repositioning the company to provide direct supply to FMCG brand customers in the food sector, the company’s operating performance has begun to materially improve. Year to date, the company has experienced revenue growth of between 15%-20% year on year with consequential improvement in earnings. The company has been successful in positioning itself as a credible regional supplier, with several new contracts being secured that will underpin continued growth into the FY17 and FY18 years. The company is well-placed to continue its trading improvement.

Outlook

Successful implementation of recent contracts secured, which materially impact revenue forecasts, should provide for a return to global industry levels of profitability. The Manager has also been reviewing the expected capital requirements to support the forecast growth and the sources of this funding.



Manager’s Report on Portfolio Companies

FISHPOND

www.fishpond.co.nz



Date of Original Investment	Industry	Stage	Total Investment Cost \$000	Shareholding %
October 2009	Online retail	Expansion	\$772 - equity	4.5*

* Total shareholding managed by Direct Capital 12.0%

Background

Fishpond is Australasia’s largest local online retailer, offering a selection of nearly 20 million products, including toys, health and beauty products, books, music, sports, games, baby and homeware products.

Performance

Fishpond enjoyed a solid Christmas with trading during the year in-line with expectation and above the previous year. The business continues to enjoy an expansion in gross profit margins on the back of numerous improvements made to its operating and financial systems, as well as an increase to the number of products Fishpond has sourced for sale. Revenue growth accelerated during the year on the back of a number of exciting growth initiatives in adjacent areas to Fishponds core business.

Outlook

The development of innovative new capabilities in a range of areas is providing Fishpond with exciting opportunities to achieve growth in the coming year.



Manager's Report on Portfolio Companies

BIOPACIFICVENTURES

www.biopacificventures.com



Table 4 - BioPacificVentures Investments to 31 December 2015, at cost:

Schedule of Current Investments at Cost to 31 December 2015	Date of Original Investment	Industry	Stage	Investment Cost (NZ\$000)
BioPacificVentures Investments				
NZP Holdings Limited	Nov-05	Pharmaceutical	Expansion	\$ 593
Vital Food Processors Limited	Feb-06	Consumer Products	Early	\$ 348
Horizon Science Pty Limited	Jul-06	Manufacturing	Early	\$ 1,119
New Zealand King Salmon Investments Limited	Sep-08	Food	Expansion	\$ 845
CoDa Therapeutics Inc	Sep-08	Pharmaceutical	Start up	\$ 555
				\$ 3,460

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

Most of the BPV investments are focused on early stage businesses, which by their nature are high risk; established companies New Zealand Pharmaceuticals and New Zealand King Salmon being the exceptions. These early stage investments present

Pohutukawa with its main investment risk exposures, mitigated to a large degree as the investments are small as a percentage of the overall portfolio.

There have been eleven investments, and with realisations this has reduced to five.

The performances of NZP and NZKS will determine the ultimate success for these BPV investments. NZP and NZKS represent over 80% of the portfolio value at year end.

BPV's other investments include: Horizon Science (low GI sugar products); CoDa Therapeutics (drug development for healing chronic wounds); and Vital Foods (kiwi-fruit based digestive health products). In each case, BPV has a minority shareholding interest. The shareholders of Horizon Science ceased further investment into the company and it was placed into administration during the year. In addition, neither CoDa nor Vital Foods has performed to investment expectation.

Directors' Report

For the year ended 31 December 2015

Directors holding office during the year and their remuneration

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

	Director Fees \$	Date of appointment
J McDonald	35,000	13 May 2008
M Prendergast	35,000	3 March 2009
N Craig	15,000	16 August 2004
M Caird	15,000	27 September 2013

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 portfolio investments that are undertaken by Pohutukawa.

Directors' shareholdings (including relevant interests) and dealings in Pohutukawa & Pohutukawa co-investments at 31 December 2015

Pohutukawa Director Investment Disclosure (Directors holding office at 31 December 2015)				
Investment Holding	J McDonald	M Prendergast	N Craig	M Caird
Including Relevant Interests				
	No. Securities	No. Securities	No. Securities	No. Securities
Pohutukawa Private Equity	100,000	-	239,000	20,000
NZ Pharmaceuticals Equity	-	-	16,119	7,774
Stratex Group Equity	-	-	18,363	22,402
Stratex Group Debt	-	-	4,024	4,904
NZ King Salmon Equity	23,852	-	16,079	14,128
NZ King Salmon Debt	64,494	-	9,827	26,782
Fishpond Equity	282	282	176	62



Director

31 March 2016

Date



Director

31 March 2016

Date



Statement of comprehensive income

For the year ended 31 December 2015

	Consolidated		Parent		
	Note	2015	2014	2015	2014
Interest income		213,523	57,071	213,489	57,066
Dividend income		88,500	300,755	-	-
Change in fair value of investments	7(a)	14,335,115	1,258,242	-	-
Gain/(Loss) on sale of investments	7(d)	-	237,444	-	(2,266,131)
Other operating income		106,000	106,000	856,532	1,081,635
Reversal of impairment of loans to investment companies	17(b)	-	-	749,728	3,955,518
Impairment of loans to investment companies	17(b)	-	-	(1,362,474)	(1,984,771)
Reversal of impairment of loans to portfolio companies	8	1,544,233	-	1,900,774	-
Impairment of loans to portfolio companies	8	(106,958)	(2,231,460)	(106,958)	(2,231,460)
Administrative expenses	5	(1,023,839)	(1,073,281)	(1,023,839)	(1,073,009)
Earnout expense	16	(9,672,243)	-	(9,672,243)	-
Operating profit/(loss) before tax		5,484,331	(1,345,229)	(8,444,991)	(2,461,150)
Income tax expense	6	-	-	-	-
Profit/(loss) for the year		5,484,331	(1,345,229)	(8,444,991)	(2,461,150)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income/(deficit) for the year		5,484,331	(1,345,229)	(8,444,991)	(2,461,150)
Attributable to:					
Equity holders of the parent		(9,626,061)	65,694	(8,444,991)	(2,461,150)
Non-controlling interest	3a(iv)	15,110,392	(1,410,923)	-	-
Profit/(loss) and total comprehensive income for the year attributable to the equity holders of stapled securities		5,484,331	(1,345,229)	(8,444,991)	(2,461,150)

Statement of changes in equity

For the year ended 31 December 2015

Attributable to equity holders of the parent

Consolidated	Share capital	Retained losses	Total	Non-controlling interest	Total equity
Balance at 1 January 2015	35,835,787	(2,235,448)	33,600,339	(5,308,068)	28,292,271
Total comprehensive income for the year	-	(9,626,061)	(9,626,061)	15,110,392	5,484,331
Distributions to equity holders	-	-	-	(670,562)	(670,562)
Redemption of preference shares	(395,390)	-	(395,390)	-	(395,390)
Balance at 31 December 2015	35,440,397	(11,861,509)	23,578,888	9,131,762	32,710,650
Balance at 1 January 2014	35,835,787	(2,301,142)	33,534,645	(3,897,145)	29,637,500
Total comprehensive income for the year	-	65,694	65,694	(1,410,923)	(1,345,229)
Balance at 31 December 2014	35,835,787	(2,235,448)	33,600,339	(5,308,068)	28,292,271
Parent	Share capital	Retained losses	Total equity		
Balance at 1 January 2015	35,835,787	(15,190,146)	20,645,641		
Total comprehensive income for the year	-	(8,444,991)	(8,444,991)		
Redemption of preference shares	(395,390)	-	(395,390)		
Balance at 31 December 2015	35,440,397	(23,635,137)	11,805,260		
Balance at 1 January 2014	35,835,787	(12,728,996)	23,106,791		
Total comprehensive income for the year	-	(2,461,150)	(2,461,150)		
Balance at 31 December 2014	35,835,787	(15,190,146)	20,645,641		

Statement of financial position

As at 31 December 2015

	Note	Consolidated		Parent	
		2015	2014	2015	2014
Assets					
Loans to investment companies	17(b)	-	-	9,699,456	10,506,217
Loans to portfolio companies	8	7,611,317	6,115,584	7,611,317	6,115,584
Receivables from investment companies	17(b)	-	-	1,775,350	1,617,918
Investments – equity securities	7(c)	32,226,828	17,891,713	-	-
Total non-current assets		39,838,145	24,007,297	19,086,123	18,239,719
Other receivables	9	322,565	643,433	169,197	20,251
Loans to portfolio companies	8	817,867	1,781,393	817,867	525,523
Cash and cash equivalents	11	1,457,166	1,921,982	1,457,166	1,921,982
Total current assets		2,597,598	4,346,808	2,444,230	2,467,756
Total assets		42,435,743	28,354,105	21,530,353	20,707,475
Equity					
Issued capital	12	35,440,397	35,835,787	35,440,397	35,835,787
Retained losses		(11,861,509)	(2,235,448)	(23,635,137)	(15,190,146)
Total equity attributable to equity holders of the parent		23,578,888	33,600,339	11,805,260	20,645,641
Non-controlling interest	3a(iv)	9,131,762	(5,308,068)	-	-
Total equity attributable to equity holders of stapled securities		32,710,650	28,292,271	11,805,260	20,645,641
Liabilities					
Trade and other payables	13	52,850	61,834	52,850	61,834
Total current liabilities		52,850	61,834	52,850	61,834
Earnout provision	16	9,672,243	-	9,672,243	-
Total non-current liabilities		9,672,243	61,834	9,672,243	61,834
Total liabilities		9,725,093	61,834	9,725,093	61,834
Total equity and liabilities		42,435,743	28,354,105	21,530,353	20,707,475

For and on behalf of the Board



Director

31 March 2016

Date



Director

31 March 2016

Date

Statement of cash flows

For the year ended 31 December 2015

	Note	Consolidated		Parent	
		2015	2014	2015	2014
Cash flows from/(to) operating activities					
Management fees		106,000	106,000	106,000	106,000
Interest received		70,841	43,268	70,841	46,472
Dividends received		40,365	300,755	-	-
Income tax refunded		-	275	-	-
Cash paid to suppliers		(1,039,091)	(1,061,187)	(1,039,091)	(1,066,532)
Net cash from/(to) operating activities	14	(821,885)	(610,889)	(862,250)	(914,060)
Cash flows from investing activities					
Proceeds from sale of investments		-	410,176	-	-
Acquisition of investments		-	(268,098)	-	-
Loans repaid by investment companies		-	-	1,816,423	1,067,442
Loans advanced to investment companies		-	-	(401,536)	(268,096)
Loans repaid by portfolio companies		1,816,608	394,672	50,734	40,327
Loans advanced to portfolio companies		(393,587)	(285,970)	(672,797)	(285,722)
Net cash from investing activities		1,423,021	250,780	792,824	553,951
Cash flows from/(to) financing activities					
Repayment of preference shares		(395,390)	-	(395,390)	-
Distributions to equity holders		(670,562)	-	-	-
Net cash from/(to) financing activities		(1,065,952)	-	(395,390)	-
Net movement in cash and cash equivalents		(464,816)	(360,109)	(464,816)	(360,109)
Cash and cash equivalents at 1 January		1,921,982	2,282,091	1,921,982	2,282,091
Cash and cash equivalents at 31 December	11	1,457,166	1,921,982	1,457,166	1,921,982



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 9 (2014: 11) Investment Companies, refer note 19, are registered under the Companies Act 1993 and are issuers and reporting entities for the purposes of the Financial Reporting Act 1993. The consolidated financial statements of the Group for the year ended 31 December 2015 comprise the Company and 9 (2014: 11) 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 31 March 2016.

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. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS").

The Financial Markets Conduct Act 2013 ("FMC Act") came in to effect on 1 April 2014, where most existing issuers will become FMC reporting entities. The Financial Reporting Act 1993 will continue to apply to unlisted issuers during the transitional period (which ends on 1 December 2016), unless an opt-in or trigger event occurs before 1 December 2016, at which time the Financial Reporting Act 2013 and FMC Act will apply. Management do not expect the adoption of the Financial Reporting Act 2013 and FMC Act will materially impact the Group.

In addition to the change in legislation, the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial reporting

standards to be applied to entities with statutory reporting obligations. The Company is currently reporting under NZ IFRS. Under the new XRB framework management expects that the Company will continue to apply NZ IFRS as applicable for tier 1 for-profit entities. Management expects that this will have no material impact on the preparation and disclosures included in the financial statements.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

(c) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the Company's functional currency, and rounded to the nearest dollar.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.



Notes to the consolidated financial statements

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 7 - Investments – equity securities
- Note 15 - Financial risk management
- Note 16 - Earnout provision
- Note 17(b) - Loans to investment companies (in parent)

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Stapled securities

For every ordinary share held in Pohutukawa Private Equity Limited, investors also hold 100 preference shares in Pohutukawa Private Equity Limited as well as one preference share in each of the 9 (2014: 11) 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 9 (2014: 11) companies combining under the stapling arrangement are designated as the Investment Companies, refer note 19, which invest in Portfolio Companies, refer note 7.

The Group and Investment companies are deemed to be Investment Entities as they invest shareholder's funds solely for returns on investments from capital appreciation, interest and dividends.

(ii) Associates

Investments in equity securities (i.e. the Portfolio Companies), which would normally be classified as investments in unlisted associates, are carried at fair value in the consolidated

financial statements and are not equity accounted (see accounting policy 3 b). This is due to the fact that the parent and group are private equity investors.

(iii) Transactions eliminated on consolidation

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

(iv) Non-controlling interest

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

(b) Investments in equity securities

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

Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's investment strategy. Regular purchases and sales of investments are recognised on a trade-date basis. That is the date on which the Group commits to purchase or sell the asset.

(c) Trade and other receivables

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

(d) Loans receivable

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



Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(e) Cash and cash equivalents

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

(f) Impairment

The carrying amounts of the Group's assets, other than investments in unlisted equity securities (see accounting

policy b), and deferred tax assets (see accounting policy 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 profit or loss.

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

(g) Share capital

(i) Preference share capital

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

(ii) Repurchase of share capital

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

(iii) Dividends

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

(h) Loans and borrowings

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

(i) Trade and other payables

Trade and other payables are stated at cost.

(j) Revenue

(i) Services rendered

Revenue from services rendered (e.g. management fees and transaction fees) are recognised in profit or loss as earned and is recorded as other operating income.

(ii) Equity investments

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

(iii) Interest income

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

(k) Income tax

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

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

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

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(l) Goods and services tax (GST)

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

(m) New standards and pronouncements relevant to the Group

The following new or revised standard is not effective for the period ended 31 December 2015, and has not been applied in preparing these financial statements.

NZ IFRS 9 - Financial Instruments – effective 1 January 2018. This standard introduces new requirements for the classification and measurement of financial assets based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

The entity does not plan to early adopt this standard and management have not yet determined the impact of this change.

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

4. Determination of fair values

Investments in unlisted equity securities are valued at the Investment Managers' valuation in the year of acquisition and subsequently by annual valuations carried out in accordance with the valuation principles set out by The International Private Equity and Venture Capital Association Limited (IPEV). Valuations are performed by Direct Capital Limited (see Note 7). These valuations require the use of significant judgement by the directors regarding estimated future earnings of the investments, and the use of appropriate earnings multipliers in determining the fair value of investments when no other observable inputs are available to the directors.

5. Administrative expenses

	Consolidated		Parent	
	2015	2014	2015	2014
Management fees	840,641	872,402	840,641	872,402
Advisory fees	3,512	2,533	3,512	2,533
Directors' fees	100,000	100,000	100,000	100,000
Other administrative expenses	79,686	98,346	79,686	98,075
	<u>1,023,839</u>	<u>1,073,281</u>	<u>1,023,839</u>	<u>1,073,009</u>

The following items of expenditure are included in administrative expenses:

Auditor's remuneration to KPMG comprises:				
Audit of financial statements	27,451	26,000	27,451	26,000
Review of interim financial statements	7,245	12,278	7,245	12,278



Notes to the consolidated financial statements

6. Income tax expense

	<i>Note</i>	Consolidated		Parent	
		2015	2014	2015	2014
Income tax expense in statement of comprehensive income		-	-	-	-

Reconciliation of effective tax rate

		2015	2014	2015	2014
Profit before tax		5,484,331	(1,345,229)	(8,444,991)	(2,461,150)
Income tax expense at 28% tax rate		1,535,613	(376,664)	(2,364,597)	(689,122)
Non-assessable income		(4,856,135)	(66,484)	(330,700)	-
Non-deductible expenses		3,148,095	272,501	2,708,228	707,516
Imputation credits received		(24,781)	(84,211)	-	-
Tax (profit)/losses not recognised	10	197,208	254,858	(12,931)	(18,394)
Total income tax expense in statement of comprehensive income		-	-	-	-

Imputation credits

	2015	2014
Imputation credits available to shareholders of the parent company in subsequent reporting periods:		
Through the parent company	-	-
Through investment companies	97,230	322,190
	97,230	322,190

Notes to the consolidated financial statements

7. Investments – equity securities

a) Non-current investments

The Group has a number of investments in unlisted equity securities. The performance of these securities is actively monitored and group policy is to carry these investments initially at cost with subsequent movements in fair value recognised in the profit or loss. As there is no quoted market price for these securities, valuation techniques must be utilised to determine fair value (see Note 4). The valuations are carried out by Direct Capital Limited (see Note 17) using IPEV guidelines.

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

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

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

2015				
Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.6%	4,775,157
BioPacificVentures	Private equity vehicle*	Various	*	2,721,193
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812
New Zealand King Salmon Investments Limited	Food	Sep 2008	10.8%	2,721,682
Fishpond Limited	Online retail	Oct 2009	4.5%	772,348
				<u>14,589,192</u>

2014				
Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
NZP Holdings Limited	Pharmaceuticals	Nov 2005	15.6%	4,775,157
BioPacificVentures	Private equity vehicle*	Various	*	3,114,322
Stratex Group Limited	Manufacturing	Apr 2007	32.8%	3,598,812
New Zealand King Salmon Investments Limited	Food	Sep 2008	10.8%	2,721,682
Fishpond Limited	Online retail	Oct 2009	4.5%	772,348
				<u>14,982,321</u>

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

Notes to the consolidated financial statements

7. Investments – equity securities (continued)

b) Sensitivity analysis

A movement of 0.2 in the earnings multiples applied to the investments carried at fair value changes the value of the investments by \$1,148,125 (2014: \$1,071,361).

A movement in the downward adjustment factor of 5% changes the value of the investments by \$2,989,074 (2014: \$2,157,885).

A movement in the maintainable earnings of 5% changes the value of the investments by \$2,604,411 (2014: \$1,852,671).

c) Fair value of investments portfolio

As investments in equity securities are carried at fair value through profit and loss 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 2015 was \$32,226,828 (2014: \$17,891,713).

d) Gain / (Loss) on realisation of investments

No investments were realised during 2015 (2014: \$237,444 gain – Rodd & Gunn NZ Limited and Rodd & Gunn Australia Limited).

8. Loans to portfolio companies

	Consolidated		Parent	
	2015	2014	2015	2014
New Zealand King Salmon Investments Limited	7,611,317	6,115,584	7,611,317	6,115,584
NZP Holdings Limited	-	1,255,870	-	-
Horizon Science Pty Limited	-	109,193	-	109,193
Stratex Group Limited	787,174	393,587	787,174	393,587
Vital Food Processors Limited	25,224	22,743	25,224	22,743
Coda Therapeutics Inc	5,469	-	5,469	-
	<u>8,429,184</u>	<u>7,896,977</u>	<u>8,429,184</u>	<u>6,641,107</u>
Represented by:				
Non-current loans	7,611,317	6,115,584	7,611,317	6,115,584
Current loans	817,867	1,781,393	817,867	525,523
	<u>8,429,184</u>	<u>7,896,977</u>	<u>8,429,184</u>	<u>6,641,107</u>

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

Notes to the consolidated financial statements



8. Loans to portfolio companies (continued)

New Zealand King Salmon Investments Limited

The advance to New Zealand King Salmon Investments Limited (investment held by Pohutukawa Alpha Investments Limited and Pohutukawa Lambda Investments Limited) was renewed during the year and has a gross principal balance owing of \$8,298,544 as at 31 December 2015. The terms of the loan enable New Zealand King Salmon, at its option, to capitalise the loan and interest into equity. As at 31 December 2015 this loan has been impaired down to a value of \$7,611,317 (2014: \$6,115,584), resulting in a reversal of impairment of \$1,544,233 (2014: impairment of \$2,231,460) being recognised in profit or loss. The advance is a fixed term loan and the interest rate is reviewed annually. The current rate set in September 2015 is 8.5% (2014: 0.0%). New Zealand King Salmon Investments Limited has received a similar loan from all its shareholders.

For the year to December 2015 interest income of \$146,565 was accrued (2014: \$nil), no interest (2014: \$146,967) was capitalised to the loan. During the reporting period \$48,499 was repaid (2014: \$20,886) and no further funds were advanced (2014: \$300,755).

NZP Holdings Limited

NZP Holdings Limited (investment held by Pohutukawa Alpha Investments Limited & Pohutukawa Delta Investments Limited) had a loan of \$1,255,870 at 31 December 2014 at an interest rate of nil which was repaid in full during 2015.

Horizon Science Pty Limited

Horizon Science Pty Limited (investment held by Pohutukawa Alpha Investments Limited) was advanced \$109,193, at an interest rate of nil%. There was a loan repayment of \$2,235 during the year, following the company being placed into liquidation. The remaining loan has been written off in full, with \$106,958 recognised in profit or loss.

Stratex Group Limited

Stratex Group Limited (investment held by Pohutukawa Zeta Investments Limited) was advanced a further \$393,587 (2014: \$393,587) at an interest rate of nil%. There were no repayments during the reporting period.

Vital Food Processors Limited

Vital Food Processors Limited (investment held by Pohutukawa Alpha Investments Limited) was advanced \$2,480 (2014:\$22,743) at an interest rate of nil% (2014: nil%).

Notes to the consolidated financial statements

9. Other receivables

	Consolidated		Parent	
	2015	2014	2015	2014
Income tax receivable	15	15	15	15
Prepayments	10,143	10,023	10,143	10,023
GST receivable	7,482	1,335	7,482	1,335
Deferred Rodd & Gunn settlement	-	620,697	-	-
Fishpond dividend receivable	48,138	-	-	-
Other receivables	256,787	11,363	151,557	8,878
	<u>322,565</u>	<u>643,433</u>	<u>169,197</u>	<u>20,251</u>

As at 31 December 2015, no receivables are considered past due (2014: nil).

10. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

	Note	Consolidated		Parent	
		2015	2014	2015	2014
Opening balance 1 January		928,736	673,878	200,590	218,984
Tax (profit)/loss not recognised	6	197,208	254,858	(12,931)	(18,394)
Closing balance 31 December		<u>1,125,944</u>	<u>928,736</u>	<u>187,659</u>	<u>200,590</u>

Due to the nature of the stapled securities and the fact that ordinary shares in the Investment Companies are owned by Pohutukawa I Investment Holdings LP, there is no ability to offset losses between the Parent (Pohutukawa Private Equity Limited) and the Investment Companies.

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

Investment Companies taxation losses cannot be used by the parent.

Notes to the consolidated financial statements

11. Cash and cash equivalents

	Consolidated		Parent	
	2015	2014	2015	2014
Call deposits	535,742	1,035,815	535,742	1,035,815
Short-term deposits	921,424	886,167	921,424	886,167
Cash and cash equivalents in the statement of cash flows	1,457,166	1,921,982	1,457,166	1,921,982

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited. The weighted average interest rate for 2015 on call deposits was 3.38% (2014: 3.70%).

Short-term deposits are held with ANZ Bank New Zealand Limited. The weighted average interest rate on short-term deposits is 3.83% (2014: 3.73%).

12. Share capital

Consolidated	Investment Co's		PPE		PPE	
	Preference shares		Ordinary shares		Preference shares	
	2015	2014	2015	2014	2015	2014
<i>In millions of shares</i>						
On issue at 1 January	583	583	53	53	3,608	3,608
Redemption and cancellation of shares	(106)	-	-	-	(39)	-
On issue at 31 December	477	583	53	53	3,569	3,608

Parent

<i>In millions of shares</i>	Ordinary shares		Preference shares	
	2015	2014	2015	2014
On issue at 1 January	53	53	3,608	3,608
Redemption of shares	-	-	(39)	-
On issue at 31 December	53	53	3,569	3,608

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

At 31 December 2015, the share capital of the Company comprised 53,000,000 ordinary shares (2014: 53,000,000), and 3,569,040,000 preference shares (2014: 3,608,579,000). In addition, there are 477,000,000 (2014: 583,000,000) preference shares in the 9 (2014: 11) Investment Companies (53,000,000 in each).

Notes to the consolidated financial statements

12. Share capital (continued)

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 distributions as declared from time to time and are entitled to one vote per share at meetings of the Company. No distributions were declared during the year by companies within the Group to shareholders (2014: \$Nil). All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but are entitled to \$0.01 per preference share upon redemption by the Company at the Company's option. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

13. Trade and other payables

	Consolidated		Parent	
	2015	2014	2015	2014
Directors fees payable	26,125	26,125	26,125	26,125
Non-trade payables and accrued expenses	26,725	35,709	26,725	35,709
	<u>52,850</u>	<u>61,834</u>	<u>52,850</u>	<u>61,834</u>

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

	Consolidated		Parent	
	2015	2014	2015	2014
Profit/(loss) for the year	5,484,331	(1,345,229)	(8,444,991)	(2,461,150)
Adjustments for:				
Change in fair value of investments	(14,335,115)	(1,258,242)	-	-
Interest capitalised	-	-	-	-
Capitalised interest received	-	(169,584)	-	-
Impairment of loans from investment companies	-	-	612,746	(1,970,746)
Impairment of loans from portfolio companies	(1,437,275)	2,231,460	(1,793,816)	2,231,460
(Gain)/Loss on sale of investments	-	(230,634)	-	2,266,131
Change in trade and other receivables	(197,085)	158,617	(899,448)	(758,561)
Change in income tax receivable	-	275	-	-
Change in trade payables and accruals	(8,984)	2,448	(8,984)	(221,194)
Change in earnout provision	9,672,243	-	9,672,243	-
Net cash flow from/(to) operating activities	<u>(821,885)</u>	<u>(610,889)</u>	<u>(862,250)</u>	<u>(914,060)</u>

Notes to the consolidated financial statements

15. Financial risk management

Introduction and overview

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

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

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

Equity price risk

The Group has policies in place to mitigate equity price risk, particularly in its investments. This includes detailed analysis of prospective equity investments. Investments in unlisted equity securities are, by their nature, less liquid and subject to greater equity price risk than listed securities.

Credit risk

Exposure to credit risk arises in the normal course of the Group's business from its loans and receivables and bank balances. The Group does not require collateral in respect of financial assets. At reporting date there were no significant concentrations of credit risk, other than those detailed in Note 8.

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

Interest rate risk

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

Loans between the parent and investment companies are interest free and due on demand. While these loans are payable on demand, they are not expected to be called within the next 12 months and are therefore classified as non-current.

Effective interest rates and repricing

The only interest bearing financial assets in the Group are bank balances, short-term deposits and loans and receivables as detailed in Note 8. At balance date the effective interest rates for bank balances for 2015 is 3.00% (2014: 3.8%), short-term deposits for 2015 is 3.43% (2014: 3.87%), and loans advanced to portfolio companies which the Investment Companies hold an ownership interest in is a weighted average of 5.81% (2014: 0.03%).

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

Notes to the consolidated financial statements

15. Financial risk management (continued)

Liquidity risk

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

Interest rate risk – repricing analysis

	<i>Note</i>	Total	Non interest bearing	Interest bearing
Consolidated 2015				
Cash and cash equivalents	11	1,457,166	-	1,457,166
Loans to portfolio companies	8	8,429,184	817,867	7,611,317
Total		9,886,350	817,867	9,068,483
Consolidated 2014				
Cash and cash equivalents	11	1,921,982	-	1,921,982
Loans to portfolio companies	8	7,896,977	1,781,393	6,115,584
Total		9,818,959	1,781,393	8,037,566
Parent 2015				
Cash and cash equivalents	11	1,457,166	-	1,457,166
Loans to portfolio companies	8	8,429,184	817,867	7,611,317
Total		9,886,350	817,867	9,068,483
Parent 2014				
Cash and cash equivalents	11	1,921,982	-	1,921,982
Loans to portfolio companies	8	6,641,107	525,523	6,115,584
Total		8,563,089	525,523	8,037,566

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

Notes to the consolidated financial statements

15. Financial risk management (continued)

Sensitivity analysis

The sensitivity of interest rate movements has an immaterial impact on the financial statements of the Group.

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 is not subject to any externally imposed capital requirements.

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

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

Notes to the consolidated financial statements

15. Financial risk management (continued)

Classification and fair values

	<i>Note</i>	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Consolidated 2015						
Assets						
Cash and cash equivalents	11	-	1,457,166	-	1,457,166	1,457,166
Investments in equity securities	7	32,226,828	-	-	32,226,828	32,226,828
Loans to portfolio companies	8	-	8,429,184	-	8,429,184	8,429,184
Other receivables	9	-	304,925	-	304,925	304,925
Total assets		32,226,828	10,191,275	-	42,418,103	42,418,103

Liabilities

Trade and other payables	13	-	-	52,850	52,850	52,850
Total liabilities		-	-	52,850	52,850	52,850

	<i>Note</i>	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
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Consolidated 2014

Assets

Cash and cash equivalents	11	-	1,921,982	-	1,921,982	1,921,982
Investments in equity securities	7	17,891,713	-	-	17,891,713	17,891,713
Loans to portfolio companies	8	-	7,896,977	-	7,896,977	7,896,977
Other receivables	9	-	632,060	-	632,060	632,060
Total assets		17,891,713	10,451,019	-	28,342,732	28,342,732

Liabilities

Trade and other payables	13	-	-	61,834	61,834	61,834
Total liabilities		-	-	61,834	61,834	61,834

Notes to the consolidated financial statements

15. 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
Parent 2015						
Assets						
Cash and cash equivalents	11	-	1,457,166	-	1,457,166	1,457,166
Loans to investment companies	17	-	9,699,456	-	9,699,456	9,699,456
Loans to portfolio companies	8	-	8,429,184	-	8,429,184	8,429,184
Receivables from investment companies		-	1,775,350	-	1,775,350	1,775,350
Other receivables	9	-	151,557	-	151,557	151,557
Total assets		-	21,512,713	-	21,512,713	21,512,713

Liabilities

Trade and other payables	13	-	-	52,850	52,850	52,850
Total liabilities		-	-	52,850	52,850	52,850

	<i>Note</i>	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Parent 2014						
Assets						
Cash and cash equivalents	11	-	1,921,982	-	1,921,982	1,921,982
Loans to investment companies	17	-	10,506,217	-	10,506,217	10,506,217
Loans to portfolio companies	8	-	6,641,107	-	6,641,107	6,641,107
Receivables from investment companies		-	1,617,918	-	1,617,918	1,617,918
Other receivables	9	-	8,878	-	8,878	8,878
Total assets		-	20,696,102	-	20,696,102	20,696,102
Liabilities						
Trade and other payables	13	-	-	61,834	61,834	61,834
Total liabilities		-	-	61,834	61,834	61,834

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 2015	Level 1	Level 2	Level 3	Total
Investments	-	-	32,226,828	32,226,828
31 December 2014	Level 1	Level 2	Level 3	Total
Investments	-	-	17,891,713	17,891,713

There have been no transfers between levels during the year.

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

Investments	2015	2014
Opening balance	17,891,713	17,029,479
Total gains or (losses):		
Change in fair value	14,335,115	1,258,242
Gain/(Loss) on disposal	-	237,444
Investments at cost during the year	-	390,404
Divestments	-	(1,023,856)
Closing balance	32,226,828	17,891,713

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	2015	2014
Total gains or (losses) included in profit or loss for the year	14,335,115	1,495,686
Total gains or (losses) for the year included in profit or loss for assets held at the end of the reporting period	14,335,115	1,258,242

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

Notes to the consolidated financial statements

16. Capital commitments and contingencies

The Group has a commitment to invest a total of \$5,300,000 with BioPacificVentures Limited (BPV). These funds are called by BPV as required and as at 31 December 2015 \$18,761 remained uncalled (2014: \$97,730).

Earnout Payment

In accordance with clause 11 of the Prospectus entities associated with the Manager are entitled to an earnout payment calculated at 20% of net returns to Pohutukawa Private Equity Limited provided investors have received back their original investment together with further distributions producing a pre-tax compound hurdle rate of 8.0% per annum on Called Capital. As at 31 December 2015 the estimated earnout payment is calculated at \$9,672,243, however this calculation is based on unrealised portfolio company fair value valuations of \$32,226,828 and loans receivable of \$8,429,184 being fully recovered. A provision has been recognised as there is more certainty that an earnout payment will be paid or payable.

17. Related parties

(a) Identity of related parties

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

Craigs Investment Partners Limited, as the administration manager, and Direct Capital Limited, as the investment manager, own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited. The apportionment of the management fee and any earnout fee reflect the relative contributions of each party. Craigs Investment Partners Limited and Direct Capital III Investment Partners LP are limited partners in Pohutukawa I Investment Holdings LP which is the holder of ordinary shares in the Investment Companies. Certain directors of the Company and the Investment Companies are also directors of Craigs Investment Partners Limited. Certain directors of the Investment Companies are also directors of Direct Capital Limited.

Direct Capital Limited is responsible for preparing valuations of investments.

(b) Transactions with related parties

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

- Management fees paid to Pohutukawa Management Limited totalled \$840,641 (2014: \$872,402).
- Legal and accounting expenses of \$3,512 were incurred by Direct Capital Limited during 2015. (2014: \$3,895) These were reimbursed by Pohutukawa Private Equity Limited.
- Surplus cash has been invested in ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, a subsidiary of Craigs Investment Partners Limited.
- Receivables from Investment Companies were \$1,775,350 at the end of the year (2014: \$1,617,918).

The terms and conditions of the transactions with key management personnel and their related parties are in accordance with the terms of the management agreement.



Notes to the consolidated financial statements

17. Related parties (continued)

(b) Transactions with related parties (continued)

Total Pohutukawa Private Equity parent company loans to the Investment Companies as at 31 December 2015 were \$9,699,456 (2014: \$10,506,217). Loans to investment companies are non-interest bearing and are used to acquire long-term equity investments. Loans are repayable on demand.

Loans have been impaired in the parent financial statements in the current year, where the value of the investment held by the Investment Companies is less than the cost of the investment. During the year there has been further impairment of \$1,362,474 (2014: \$1,984,771) less \$749,728 (2014: \$3,955,518) of impairment incurred in previous periods being reversed. This does not affect the consolidated financial statements.

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

(c) Transactions with key management personnel

	Consolidated		Parent	
	2015	2014	2015	2014
Directors fees (total remuneration)	100,000	100,000	100,000	100,000

The balance owing to key management personnel at 31 December 2015 is \$26,125 (2014: \$26,125).

18. Subsequent events

The sale of portfolio company NZP Holdings Limited settled 31 March 2016.

Notes to the consolidated financial statements

19. Group entities

Investment Companies	Country of incorporation	Ownership interest*	
		2015	2014
Pohutukawa Alpha Investments Limited ("Alpha")	New Zealand	0%	0%
Pohutukawa Delta Investments Limited ("Delta")	New Zealand	0%	0%
Pohutukawa Zeta Investments Limited ("Zeta")	New Zealand	0%	0%
Pohutukawa Theta Investments Limited ("Theta")**	New Zealand	-	0%
Pohutukawa Iota Investments Limited ("Iota")**	New Zealand	-	0%
Pohutukawa Kappa Investments Limited ("Kappa")	New Zealand	0%	0%
Pohutukawa Lambda Investments Limited ("Lambda")	New Zealand	0%	0%
Pohutukawa Mu Investments Limited ("Mu")	New Zealand	0%	0%
Pohutukawa Nu Investments Limited ("Nu")	New Zealand	0%	0%
Pohutukawa Xi Investments Limited ("Xi")	New Zealand	0%	0%
Pohutukawa Omicron Investments Limited ("Omicron")	New Zealand	0%	0%

*As stated in note 3(a)(i), the preference shares in the Investment Companies are owned by the individual shareholders of Pohutukawa Private Equity Limited but are consolidated into the Group as they are stapled securities.

** These companies were wound up during 2015, all preference shares were cancelled and each company was removed from the companies office register.

Notes to the consolidated financial statements



To the Shareholders of Pohutukawa Private Equity Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Pohutukawa Private Equity Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 15 to 38. The financial statements comprise the statements of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the company and group financial statements

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

Auditor's responsibility

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

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

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

Our firm has also provided other services to the company and group in relation to other assurance services (review of interim financial statements). Subject to certain restrictions, 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. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 15 to 38:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the company and the group as at 31 December 2015 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

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

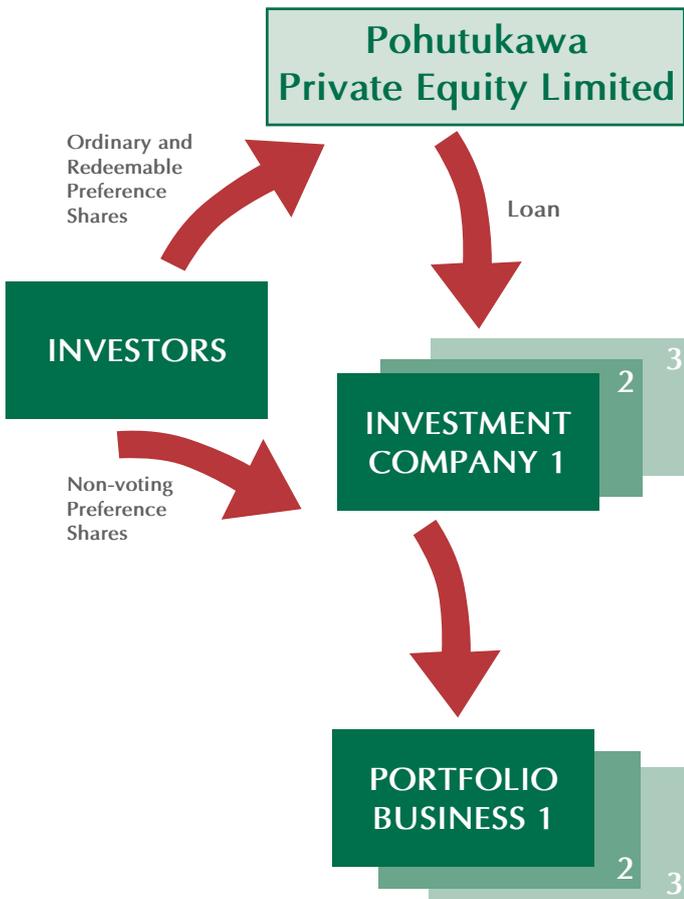
- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Pohutukawa Private Equity Limited as far as appears from our examination of those records.

31 March 2016
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 investment companies, which invest in the portfolio companies. These are called stapled securities. There are 53 million ordinary shares on issue. The number of ordinary shares on issue remains constant while the ratio of preference shares reduces as investments are realised and preference shares are redeemed.

The Pohutukawa structure is:



Ordinary shares held by investors in Pohutukawa confer normal voting rights on investors. The preference shares held by investors in both Pohutukawa and the Investment Companies confer no voting rights. The Manager (Direct Capital and Craigs Investment Partners), through Pohutukawa Investment Holdings Limited Partnership holds all the ordinary voting shares in each of the Investment Companies and exercises these rights in accordance with the Pohutukawa investment policy and investment criteria.

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

For so long as it holds at least 50% of the issued shares in the Manager, Craigs Investment Partners is entitled to appoint up to 50% of the directors of Pohutukawa Private Equity. All other directors of Pohutukawa can be appointed by directors or removed by ordinary resolution of the investors. The Directors of each Investment Company can be appointed or removed only by the limited partners.

The Board sets the investment policy and criteria, and reviews the performance of the Manager from time to time and reports to the shareholders on the review. It reviews the capital adequacy of Pohutukawa and is responsible for continuous disclosure and shareholder meetings of Pohutukawa.

The Manager is a 50/50 joint venture between Direct Capital and Craigs Investment Partners, both of whom provide services to the Manager on a contract basis. Direct Capital provides investment management services. Craigs Investment Partners provides fundraising, cash management, administration, investor communication, and investment sourcing and divestment assistance. The Investment Committee of the Manager is responsible for all investment decisions. Current members of the Investment Committee are Maurice Prendergast, Mark Hutton, Ross George, Tony Batterton, Travis Sydney, Neil Craig and Mike Caird.



The Pohutukawa Board

THE POHUTUKAWA BOARD

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



JOHN MCDONALD
(Chairman and Independent Director)

John is a Company director and trustee with more than 30 year's experience in executive and management positions with the former Fletcher Challenge group of companies through to his retirement in 2001. He has considerable international experience in management, finance, corporate governance best practice and as a director and audit committee member of private and publicly listed companies. John is currently a director of Horizon Energy Distribution Limited, and he is Chairman of both Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited. John was previously a director of Air New Zealand for 9 years.



MAURICE PRENDERGAST
(Independent Director)

Maurice brings international business experience with him along with a wealth of knowledge in logistics, technology, retail and global expansion. Maurice was previously a director of Pumpkin Patch Limited and CEO of Pumpkin Patch, a position he held from 1993 to 2011. Maurice has held executive positions in accounting, distribution and property development in both New Zealand and Australia. He is a director of Pohutukawa Private Equity Limited; Pohutukawa Private Equity II Limited; Industrial Lubricants and Services Limited and a number of other private companies. He was previously a director of Comvita Limited.



NEIL CRAIG
(Non-Executive Director)

Neil is the founding principal and Chairman of Craigs Investment Partners, a leading full service NZX Participant Firm. Craigs Investment Partners has approximately 370 staff with 16 branches throughout New Zealand. Neil has a broad experience in private equity transactions, stock exchange listings, capital raisings and corporate activity for a wide range of companies. In a personal capacity Neil has been an active private equity investor for many years.

Neil is a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited, as well as being Chairman of NZX Listed Comvita Limited. He is Chairman of Tauranga based angel investment group Enterprise Angels Inc., AGInvest Holdings Limited and a director of a number of privately held companies.



MIKE CAIRD
(Non-Executive Director)

Mike was appointed as a director of Pohutukawa Private Equity Limited and Pohutukawa Private Equity II Limited in September 2013. Mike joined Craigs Investment Partners in March 2009 as Head of Debt Capital Markets, and had been a Director of Craigs Investment Partners since 2001. Mike's career in financial markets includes 11 years with ABN AMRO, during which he was Head of Acquisition and Leveraged Finance for Australia and New Zealand and Head of Global Markets New Zealand, Brierley Investments Limited for 10 years and Ernst & Young for four years.

Mike has previously been a Director of Hospital Car Parking Limited, McConnell Property Limited, Mangawhai Development Holdings Limited, AsiaPower Limited and Aetna Health (New Zealand) Limited. Mike is a director of the AMN Limited private group of companies involved in glass services, a director of Signal Corporation Limited, Wilson HTM Limited, and a director of the New Zealand Social Infrastructure Fund Limited.



Committees

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

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

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

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



Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY

John McDonald
Maurice Prendergast
Neil Craig
Mike Caird

The Directors can be contacted at Pohutukawa's
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