



ANNUAL REPORT

Pohutukawa

PRIVATE EQUITY LIMITED

For the period ended 31 December 2004

Contents

Letter from the Chairman	1
'Directors' Report	2
Audit Report	3
Statement of Financial Performance	4
Statement of Movements in Equity	4
Statement of Financial Position	4
Statement of Cash Flows	5
Notes to the Accounts	6-8
Group Directory	9



Letter from the Chairman

11 April 2005

Dear Shareholder

This is my first formal communication with you since our very successful capital raising in October 2004. Since that time, Pohutukawa Management have been busy assessing a number of investment opportunities some of which finally look like coming to fruition.

Attached you will find a copy of the Annual Accounts for the period 16 August 2004 to 31 December 2004, plus a copy of the KPMG Audit Report. These Accounts reflect the initial investment of \$21.2 million (40 cents on 53 million shares issued) and related costs, management fees as well as income from interest earned on the capital invested. The Accounts show that at balance date we had shareholders' funds of \$20.9 million made up almost entirely in cash or near cash.

The initial cash tranche from shareholders has been invested in short-term deposits in the ABN AMRO Craigs Cash Management Trust. This has been approved by Pohutukawa's independent Directors as being consistent with meeting the security requirements of the Prospectus. The current average rate of return on this deposit is approximately 6.7% pa.

The team has been working hard to put in place the first investments of the Company. There is no shortage of potential opportunities, with more than 40 prospects reviewed over the last five months, which represents a pleasing level of deal activity.

The investment appraisal and analysis process is thorough, and builds on Direct Capital's many years of private equity experience. Investment opportunities, regardless of location, size or stage of investment, are assessed using a consistent set of standards. The time it takes to complete transactions in the private equity arena can depend on the individual circumstances of the companies involved.

No investments were concluded during the period. As noted above however, the level of deal activity has been high. Several of the investment prospects are now at the stage of negotiation of financial terms and we anticipate being in a position to make formal announcements on at least one of these investment opportunities in the near future.

Even though to date no investments have been made, it is clear our Joint Venture relationship with managers ABN AMRO Craigs Limited and Direct Capital Private Equity Limited, is going to yield unique outstanding benefits to you, the investor. This relationship has resulted in a steady flow of investment opportunities to consider.

You will recall that in the Prospectus, Pohutukawa can commit up to 20% of its capital to investment opportunities through Life Science Ventures (subsequently renamed BioPacific Ventures), a fund to be set up to invest in the bio-technology and agri-business 'space'. You may have already noticed the announcement on 15 March 2005, (copy included) that Direct Capital was successful in establishing a group of investors with the capacity to raise up to \$150 million to invest in BioPacific Ventures. We have now committed \$5.3 million in BioPacific Ventures on the basis that the Directors of Pohutukawa are satisfied that the investment criteria of the investee companies in BioPacific Ventures meets our own investment rules as described in the Prospectus.

Please note that ABN AMRO Craigs has established a secondary market for your Pohutukawa shares, details of which are now available on the Pohutukawa website www.pohutukawafund.co.nz.

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

- Tuesday, 17 May 2005
- At 2.00pm
- At ABN AMRO Craigs Ltd, Level 32, Vero Centre, 48 Shortland Street, Auckland
- RSVP: Peter Lalor on 07 5774 727 or enquiries@pohutukawafund.co.nz

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

In terms of ongoing investor communication, you will be kept informed by mail and our website of our six monthly and full year results. This means that beyond the ASM, the next formal reporting will be for the interim six months to 30 June 2005. Outside of these formal communications, we will continue to keep you informed as investments are made by Pohutukawa via press announcements and through news updates on our website.

If you have any queries regarding your investment in Pohutukawa, please call your usual Investment Adviser or Peter Lalor, Pohutukawa Investor Relations Manager on 07 5774 727.

Yours sincerely

POHUTUKAWA PRIVATE EQUITY



JON CIMINO
Chairman

Directors' Report

For the period ended 31 December 2004

The Directors of Pohutukawa Private Equity Limited have pleasure in submitting their inaugural annual report for the period ending 31 December 2004.

Directors holding office during the period and their remuneration

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

	Fees \$	Date of appointment
J A Cimino	11,667	27 August 2004
M W Davies	15,694	27 August 2004
N J Craig	5,000	16 August 2004
W T Stevens	5,000	27 August 2004

Entries recorded in the interests register

The following entries were recorded in the interests register of the company during the year:

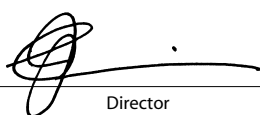
Share dealings of Directors

During the period of the Initial Public Offering, M Davies purchased 100,000 ordinary shares and 10,000,000 redeemable preference shares in Pohutukawa Private Equity Limited for a consideration of \$40,000, with the remaining \$60,000 to be called at a later date.

During the period of the Initial Public Offering, N Craig purchased 150,000 ordinary shares and 15,000,000 redeemable preference shares in Pohutukawa Private Equity Limited for a consideration of \$60,000, with the remaining \$90,000 to be called at a later date.

During the period of the Initial Public Offering, W Stevens purchased 100,000 ordinary shares and 10,000,000 redeemable preference shares in Pohutukawa Private Equity Limited for a consideration of \$40,000, with the remaining \$60,000 to be called at a later date.

On 22 November 2004 J Cimino purchased 25,000 ordinary shares and 2,500,000 redeemable preference shares in Pohutukawa Private Equity Limited for a consideration of \$10,000, with the remaining \$15,000 to be called at a later date.



Director

30 March 2005

Date



Director

30 March 2005

Date

Audit Report



Audit report

To the Shareholders of Pohutukawa Equity Limited

We have audited the financial statements on pages 4 to 8. The financial statements provide information about the past financial performance of the fund and its financial position as at 31 December 2004. This information is stated in accordance with the accounting policies set out on page 6.

Manager's responsibilities

The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the fund as at 31 December 2004 and the results of its operations and cash flows for the 5 month period ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the manager 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 manager in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company'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.

Our firm has also provided other services to the company in relation to taxation services. These matters have not impaired our independence as auditors of the company. The firm has no other relationship with, or interest in, the company.

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the fund as far as appears from our examination of those records;
- the financial statements on pages 4 to 8:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the fund as at 31 December 2004 and the results of its operations and cash flows for the 5 month period ended on that date.

Our audit was completed on 30 March 2005 and our unqualified opinion is expressed as at that date.

The KPMG logo, consisting of the letters 'KPMG' in a bold, sans-serif font, with a stylized graphic of four vertical bars of increasing height to the left of the letters.

Tauranga

Statement of Financial Performance

For the period ended 31 December 2004

	Note	31 December 2004 \$
Revenue		
Interest		318,060
Application fees		4,100
Operating revenue		<u>322,160</u>
Operating deficit before taxation	2	(35,976)
Taxation expense	3(a)	-
Net deficit for the period		<u>(35,976)</u>

Statement of Movements in Equity

For the period ended 31 December 2004

	Note	31 December 2004 \$
Net deficit for the period		(35,976)
Total recognised revenues and expenses		<u>(35,976)</u>
Contributions from owners		
Shares issued	6	<u>20,950,000</u>
Total movements in equity for period		<u>20,914,024</u>
Equity at beginning of period		-
Equity at end of period		<u>20,914,024</u>

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2004

	Note	31 December 2004 \$
Current assets		
Call deposits		1,004,321
Short term investments		20,000,000
Receivables	4	<u>344,889</u>
		<u>21,349,210</u>
Current liabilities		
Payables	5	<u>(435,186)</u>
		<u>20,914,024</u>
Equity		
Share capital	6	20,950,000
Retained deficit		<u>(35,976)</u>
TOTAL EQUITY		<u>20,914,024</u>



For and on behalf of the Board



Director

30 March 2005

Date



Director

30 March 2005

Date

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the period ended 31 December 2004

	Note	31 December 2004 \$
Cash flows from operating activities		
<i>Cash was provided from:</i>		
Interest income received		114,635
Application fees received		2,050
<i>Cash was applied to:</i>		
Payments to suppliers		(58,743)
Income tax paid		(3,621)
Net cash flow from operating activities	8	<u>54,321</u>
Cash flows from investing activities		
<i>Cash was applied to:</i>		
Short term deposits		(20,000,000)
Net cash flow from investing activities		<u>(20,000,000)</u>
Cash flows from financing activities		
<i>Cash was provided from:</i>		
Share capital introduced, net of issue expenses		20,950,000
Net cash flow from financing activities		<u>20,950,000</u>
Net increase (decrease) in cash held		1,004,321
Add opening cash brought forward		-
Ending cash carried forward		<u>1,004,321</u>
<i>Reconciliation of cash to the Statement of Financial Position</i>		
Call deposits		1,004,321
Ending cash carried forward		<u>1,004,321</u>



The accompanying notes form part of these financial statements.

Notes to and forming part of the Financial Statements

For the period ended 31 December 2004

1 STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Pohutukawa Private Equity Group consists of Pohutukawa Private Equity Limited and 25 Investment Companies. Collectively these companies are referred to as the "Group". The intention of the Group is to invest in specific portfolio businesses, via one of the Investment Companies formed for this purpose. Pohutukawa Private Equity Limited will provide loans to the Investment Companies on an as required basis.

For every ordinary share held in Pohutukawa Private Equity Limited, investors also have 100 redeemable preference shares in Pohutukawa Private Equity Limited as well as one preference share in each of the 25 Investment Companies. Each of these shares are stapled securities.

As at 31 December 2004, none of the Investment Companies had entered into any transactions. Consequently, the only accounts presented here are those of Pohutukawa Private Equity Limited. As the Investment Companies commence trading, the individual company financial statements will be presented together with aggregated totals for the Group.

Pohutukawa Private Equity Limited and the 25 Investment Companies are companies registered under The Companies Act 1993 and are reporting entities for the purposes of The Financial Reporting Act 1993 and are considered issuers in accordance with that Act.

The financial statements of Pohutukawa Private Equity Limited have been prepared in accordance with The Financial Reporting Act 1993.

Measurement Base

The financial statements have been prepared on the historical cost basis.

Comparatives

Pohutukawa Private Equity Limited was incorporated on 16 August 2004. These financial statements cover the period from incorporation until its balance date, being 31 December 2004.

Specific Accounting Policies

The following specific accounting policies, which materially affect the measurement of profit and the financial position, have been applied:

a) Income Tax

Income tax expense is recognised on the operating surplus before taxation adjusted for permanent differences between taxable and accounting income. A future income tax benefit is only recognised when there is virtual certainty of realisation.

Deferred tax is calculated using the comprehensive basis under the liability method. The liability method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position.

b) Goods and Services Tax (GST).

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

c) Receivables

Receivables are carried at estimated realisable value after providing against debts where collection is doubtful.

d) Share Capital

Unpaid share capital, which is subject to specified calls in the future, is recognised as equity when called.

Share issue costs are deducted from the proceeds of the shares issued.

e) Investment income

Interest income is recognised in the statement of financial performance as it accrues.

f) Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash comprises cash balances and demand deposits. Cash excludes short-term investments that are not used as part of the Group's day-to-day cash management.

g) Changes in Accounting Policies

There have been no changes in accounting policies during the period.



Notes to and forming part of the Financial Statements (Continued)

2 OPERATING SURPLUS BEFORE TAXATION

	31 December 2004 \$
After charging:	
Auditors remuneration	
- Audit services	5,000
Directors' fees	37,361
Management fee	274,438

3 TAXATION**a) Income tax expense**

	31 December 2004 \$
Operating loss before taxation	(35,976)
Permanent differences:	
Non deductible items	18,500
Losses not recognised	17,476
Taxable income	-
Tax expense @ 33%	-
Taxation expense	-

b) Tax losses

	Note	31 December 2004 \$
Unrecognised tax losses available to set off against future assessable income:		
Tax losses	3(a)	17,476
Tax saving thereon		<u>5,767</u>

c) Imputation credit account

	31 December 2004 \$
Balance at beginning of period	-
Income tax payments during the period	3,621
Balance at end of period	<u>3,621</u>

4 RECEIVABLES

	Note	31 December 2004 \$
Interest receivable		203,424
Application fees receivable		2,050
Related company balances receivable	7	63,830
Taxation refund due		3,621
Goods and services taxation receivable		71,964
		<u>344,889</u>

5 PAYABLES

	Note	31 December 2004 \$
Trade creditors		12,591
Provisions and accruals		34,793
Related company balances payable	7	387,802
		<u>435,186</u>

6 SHARE CAPITAL**a) Paid in share capital comprises:**

	Note	31 December 2004 Number	31 December 2004 Value (\$)
Ordinary shares			
Balance at beginning of period		-	-
Share capital issued		53,000,000	-
Balance at end of period	6(b)	<u>53,000,000</u>	-
Redeemable preference shares			
Balance at beginning of period		-	-
Share capital issued		5,300,000,000	21,200,000
Less issue expenses		-	(250,000)
Balance at end of period	6(c)	<u>5,300,000,000</u>	<u>20,950,000</u>

b) Ordinary shares

The 53,000,000 ordinary shares have been allotted at nil value per share.



*Notes to and forming part of the Financial Statements (Continued)***c) Shares not fully paid**

The 5,300,000,000 redeemable preference shares have been allotted at \$0.01 per share, of which \$0.004 has been called and paid. The remaining \$0.006 is excluded from the equity of Pohutukawa Private Equity Limited until called. It is Pohutukawa Private Equity Limited's intention to make calls on the partly paid shares in two tranches within five years of the initial issue.

d) Rights attaching to shares on issue

Ordinary shares held by investors in Pohutukawa Private Equity Limited have normal voting rights. The preference shares held by investors in both Pohutukawa Private Equity Limited and the Investment Companies have no voting rights. Ordinary shares in Pohutukawa Private Equity Limited have equal rights to income and capital distributions, along with distribution of assets upon the winding up of the business.

No related party debts have been written off or forgiven during the period.

8 RECONCILIATION OF NET DEFICIT AFTER TAXATION WITH CASH FLOW FROM OPERATING ACTIVITIES

	31 December 2004 \$
Reported deficit after taxation	(35,976)
Increase in receivables	(344,889)
Increase in payables	435,186
Net cash flow from operating activities	<u>54,321</u>

9 SEGMENT INFORMATION

Pohutukawa Private Equity operates predominantly in one sector, the investment of private equity.

7 RELATED PARTY TRANSACTIONS

ABN AMRO Craigs Limited is a related party of Pohutukawa Private Equity Limited as it has common directors. Pohutukawa Management Limited is a related party of Pohutukawa Private Equity, as it is owned 50% by ABN AMRO Craigs Limited.

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

- Management fees paid to Pohutukawa Management Limited totalled \$274,438
- In accordance with the prospectus any issue costs over \$250,000 were to be reimbursed by Pohutukawa Management Limited. The total to be reimbursed is \$63,830 and is included in receivables.
- Application fees received by Pohutukawa Private Equity Limited on behalf of the lead manager, ABN AMRO Craigs Limited, totalled \$778,360. In addition, ABN AMRO Craigs Limited paid certain expenses of Pohutukawa Private Equity Limited. As at 31 December 2004, \$387,802 remained owing to ABN AMRO Craigs Limited and is included in payables.



Group Directory

REGISTERED OFFICE

Ground Floor
Farming House
102 - 104 Spring Street
Tauranga

DIRECTORS

J A Cimino
M W Davies
N J Craig
W T Stevens

AUDITORS

KPMG
Level 5
35 Grey Street
Tauranga

SOLICITORS

Chapman Tripp Sheffield Young
Level 35, 23-29 Albert Street
PO Box 2206
Auckland

SHARE REGISTRY

BK Registries Limited
138 Tancred Street
PO Box 384
Ashburton

MANAGERS

Pohutukawa Management Limited
C/o ABN AMRO Craigs Limited
Ground Floor
Farming House
102 - 104 Spring Street
Tauranga

Pohutukawa



New Zealand Herald, March 15 2005

id Herald

TODAY'S SPECIAL SECTION CONNECT, C4-C5

INESHERALD

Economic storm clouds gather
see C2

Tuesday, March 15, 2005 • C

FULL OF BEANS.
Classic

Bio fund's \$150m launch

Nestle is main investor in research project

by Liam Dann
primary industries editor

The biotech industry got a \$150 million boost yesterday.

Swiss food giant Nestle has joined local investors to launch the BioPacific Ventures fund, which will be the largest in Australia, focusing exclusively on life sciences.

Life science involves plant and animal-based technology targeting human therapeutics, agricultural improvement, nutritional enhancement and food safety.

Although Nestle is the biggest investor, the company will not say how much it has committed to the fund, which was launched at the New Zealand Biotech conference in Auckland.

The second biggest investor is the Swiss venture capital company, Investages — which already manages global funds worth \$900 million. Investages will manage BioPacific in partnership with AgResearch and Direct Capital — the two local organisations that got the project off the ground.

Government crown research agency AgResearch developed the vision for a life science fund three years ago. With backing from local venture capitalists Direct Capital, it launched plans for a \$100 million fund last year.

BioPacific executive director Howard Moore said bringing Investages into the partnership had been a major coup.

He said it would provide a strong global network of contacts as well as proven business development skills.



IN THE MONEY: Announcing the BioPacific Ventures fund were, from left, Bill Kernode of Direct Capital, Erich Seiber and Craig Wrightson.

INSIDE

Surge in tech funding — Connect, C4

million stake in listed biotech company Genesys research earlier this month.

Wrightson chairman Craig Norgate said the BioPacific partnership was a "dream team".

The company's primary reason for investing was to reap dividends from its commercial success.

Government-funded investment agency New Zealand Venture Investment has also put money in.

Several other key investors have declined to be named.

"Bringing Investages into the partnership is a major coup"

Howard Moore
BioPacific executive director

"One reason this fund is so big is so it can carry companies from pre-clinic trials until they have products ready for market," Seiber said.

The biggest local investor will be rural services company Wrightson, which has committed \$14 million.

Wrightson sold out of its \$12

Carrying out research was also about 30 per cent cheaper than in Europe.

The problem had always been the limited resources available to commercialise that science with research companies being forced to list on the sharemarket too early.

The fund would be looking to invest in private companies on both sides of the Tasman.

Investages investment manager Erich Seiber, a former Nestle executive, said it was clear New Zealand had excellent research going on in agriculture, food and food safety.



LIAM DANN
primary industries editor

And now, the Oscar for biotech

THE team at AgResearch and Direct Capital have pulled off a Peter Jackson-sized coup for this country.

Raising \$150 million to fund exciting new agricultural science projects is a wonderful effort in itself.

But what makes the BioPacific Ventures fund so important is that it has attracted international biotech heavyweights to New Zealand for the first time.

For years, we've been tiding ourselves we lost the world in agricultural science.

We've had plenty of proof of our success in the production gains made by dairy and meat farmers.

We've developed world-class apple varieties and bred the blue fruit into one of the most popular fruits on the planet.

But we have struggled to sell our story to international investors.

New biotech companies have struggled to survive.

Now, like our film makers and special-effects wizards, our scientific companies are going to get the chance to shine on the global stage.

It's impossible to put a price on the buzz this fund could generate.

The Swiss-based venture capital company Investages is young and dynamic with a good reputation around the world.

They are also hard-nosed about making money in a tough industry.

By seeking their claim here, they have put us on the map.

Suddenly, biotech fund managers in Asia and the US will be asking what is so interesting that has attracted a bunch of Swiss guys down here.

Let's hope they've started an investment rush.