

# Pohutukawa



## INTERIM REPORT

For the period ended 30 June 2007



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## Letter from the Chairman

30 August 2007

Dear Shareholder

I am pleased to present our interim report, which includes a summary of Pohutukawa's financial performance to 30 June 2007, comments on new investments to date, plus an update by the Manager on the Fund's portfolio performance.

### Investments

The interim 6-month period to 30 June has seen a number of investments made into the following companies:

	(NZ\$000)
• Paper Coaters	\$3,121
• Express Logistics investing into Victory International Logistics Pty	\$ 184

I am also delighted to confirm our latest direct investment into Innovair Group Limited, which has just been completed, with an initial investment amount of:

	(NZ\$000)
• Innovair Group Limited	\$ 912

Innovair is based on a pest control product – Robocan, which is becoming an increasingly familiar pest control name to consumers. Robocan is an automatic dispenser of pest repellent and pest control sprays. Innovair is making strong inroads into this market and has a competitive advantage with its dispensing technology – "advanced mist spray technology". To date the company has achieved strong sales growth in both New Zealand and Australia and Innovair will launch Robocan into South Africa this summer. Selected markets in Asia also offer promising prospects. We believe this company to have high growth potential.

Through *BioPacific Ventures (BPV)*, we have also made a number of smaller investments into:

	(NZ\$000)
• Novotech (Australia) Pty Ltd	\$312

• Rissington Breedline Ltd	\$106
• Encoate Ltd	\$ 15
• Anzamune Ltd	\$ 62

With the recent Innovair investment we now have total investments and commitments of \$23.2m, or 43.77% of the available capital. Actual investments are at \$18.14m or 34.23% of available capital. We are satisfied that progress is in line with our 5-year investment timeframe.

### Portfolio Revaluation

Our portfolio companies continue to show solid performance in the face of a more volatile market place. The majority of the portfolio companies have shown good performance to date either operating ahead of, or to budget. We would expect to see the current financial market forces putting pressure on earnings during the present period of uncertainty.

The Board continues to be satisfied with the growth and development of each of the portfolio companies and the portfolio as a whole continues to increase in value. Under AVCAL guidelines, investments are required to be re-valued 12 months after investment. The Manager has now completed a revaluation based on the interim results to June that shows a further uplift in value with the portfolio now valued at \$24.9m against a cost price of \$17.2m. This represents a NTA of \$0.52 per share.

### Outlook

With a number of uncertainties in the market place where we are currently facing global investment market reversion, local currency concerns – where the Kiwi \$ reached an historic high against the US\$ (proving good for consumers and bad for exporters), then in recent weeks a sharp correction (which satisfies exporters, but adverse for consumers), and debt market-interest rate unease, the outlook for the private equity investment environment in which Pohutukawa operates remains solid. There will continue to be healthy competition for quality businesses,

however, given the impending credit-crunch and higher cost of credit we would expect Pohutukawa to be able to invest in future portfolio companies that offer good returns for equity investors. Pohutukawa will continue to focus on both follow-on investments within its existing portfolio and look at value investment opportunities with solid cashflows that demonstrate clear growth potential.

### Call

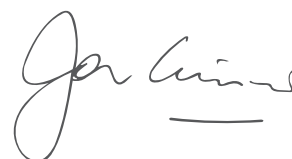
I am mindful that we have promised the next call for some time now but given current investment prospects under consideration and timeframes the call now looks like being in the last quarter of 2007. We will provide you with 90 days notice of this, upon us making our next significant investment. The Pohutukawa directors have agreed to initially fund the next investment(s) with debt until the call monies are received.

We will continue to keep you up to date with investments as they are made via our website, [www.pohutukawafund.co.nz](http://www.pohutukawafund.co.nz). You may wish to view this site from time to time. On matters concerning acquisitions, major events of investee companies, liquidity events and for statutory requirements, we will write to you directly.

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

Yours sincerely

POHUTUKAWA PRIVATE EQUITY LTD



JON CIMINO  
Chairman

# Investment Report

30 August 2007

## Report on Portfolio Companies

### Max Retail Holdings Limited (Max)

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

Max Retail Holdings Limited ("Max") represents one of New Zealand's leading women's apparel labels, Max Fashions, appealing predominantly to an 18-35 year old customer base, with 38 stores in shopping mall and high street sites around New Zealand.

Trading for the June quarter has continued to be exceptionally strong.

Max's sales for the first five months are up 17% in total and 13% on a lfl basis versus the prior year. EBIT is up.

Correspondingly, stores such as Queen Street and Queenstown, which underwent significant reformat last year, are up 40% and 25% respectively on the prior year. With only a couple of exceptions, all stores are trading positively against budget. These sales numbers are significantly ahead of what Max's comparable competitors in the market are achieving. The Women's Republic of New Zealand campaign has been high profile, the seasons product/design has clearly been well received and the impact of interest rate rises to date has not adversely impacted Max customers demand.

The new Albany store is now expected to open one month earlier in November.

Max continues to explore Australian expansion opportunities.

### Express Logistics Group Ltd (Express)

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

Express Logistics Group Limited ("Express") is an Australasian based international logistics service provider offering a complete range of import, export, and supply chain logistics services. Express is based in Auckland and Sydney with operations in Christchurch, Palmerston

North, Napier, Wellington, Perth, Brisbane and Melbourne.

Express has completed the financial year to June 30 with a comparable EBIT result, a pleasing 12% ahead of the same period last year. This is the second year since our investment that the company has achieved double-digit growth in earnings.

Express has opened a new office in Los Angeles. This will initially service customers shipping product direct from China and any northbound cargo from New Zealand and Australia.

The integration of the Victory acquisition (an Australian based logistics firm acquired in April 2007) has made excellent progress. Full integration of systems occurred in June and the businesses have now combined sites in Melbourne, Sydney, Perth and Brisbane. Australian management are delighted with the synergies achieved to date across all areas of the business.

### New Zealand Pharmaceutical Holdings Ltd (NZP)

[www.nzpharmaceuticals.com](http://www.nzpharmaceuticals.com)

New Zealand Pharmaceuticals Ltd ("NZP") manufactures specialty chemicals for some of the world's leading pharmaceutical companies.

Year to date EBIT (June-07) remains ahead of budget in spite of the negative impact of the high NZ dollar.

Given this and a budgeted lower final sales quarter it is still expected NZP will finish the year with EBIT result ahead of last year although slightly below budget.

NZP is progressing the manufacture of a number of developing products to fully utilise the new plant. Encouraging progress was also made with Just the Berries and other business development initiatives.

NZP is ultimately aiming for a public listing.

### International Forwarding Limited / Gluck Pty

[www.gluck.com.au](http://www.gluck.com.au)

International Forwarding Limited has acquired an initial 20% shareholding in Gluck Pty Limited. Gluck is one of Australia's larger privately owned supply chain services companies employing over 150 people throughout Australasia. Gluck's range of services include air and sea freight, customs clearance services, and warehouse and distribution services. Gluck is based in Melbourne with operations in Sydney, Brisbane, Adelaide and Auckland.

The company has not achieved its target earnings growth for the year due to:

- Translation losses on the USD denominated gross profit;
- As a new business area the warehouse and distribution business in Australia is trading below forecast. The business has recently won a number of new clients which will start this year and are expected to be profitable by year-end;
- The New Zealand business that was acquired last year has achieved strong sales growth of 20%. New premises and staff have affected earnings growth.

The highlight for the period was the recently completed complementary acquisition of Campbell Henry, a leading logistics provider for the apparel sector in New Zealand. The purchase is expected to yield significant cost and new business benefits as a result of merging the two businesses.

### Professional Hearing Services Limited (PHS)

PHS is a hearing aid retail business, providing hearing tests and hearing aid fitting services with 2 primary clinics and 3 visiting clinics in the Waikato/BOP region. One additional Waikato clinic is due to be opened in the near future.

Trading is in line with expectations, with no significant operational issues. The

# Investment Report

business traded profitably for the first quarter to June 2007.

A brand review has been completed and a new brand name will be released to the market shortly. The new brand is part of the positioning for a national expansion strategy.

PHS has also reached a conditional agreement to acquire an existing audiology business in a major city location. This business will then be expanded in this region over time. It is expected that PHS will continue to grow by acquisition and through establishing new outlets.

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## Paper Coaters Group Limited

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

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Paper Coaters operates in a niche packaging sector of extrusion coating and laminated products designing, manufacturing and supplying specialist packaging product to the paper, food and industrial markets of NZ and Australia. Paper Coaters laminates polymer (plastic) and foil on to paper producing products such as foil and non-foil hot food bags (e.g. chicken wrapping from super market deli's), food sachets, specialty cheese wraps, insulation materials, mill wrap, and formed trays (such as convenience meal bases).

The two months trading to June 2007 since investment show trading is in line with the investment case. Australian denominated sales account for 68% of revenue and the higher NZD:AUD cross rate has impacted on revenue, although some cross rate respite has occurred during August. The sales pipeline remains strong with a number of customers trading well above forecast.

Paper Coaters is reviewing a number of acquisition possibilities and has an in-principle agreement to acquire the manufacturing plant of an Australian operator.

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## BioPacificVentures (BPV)

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Our first investment commitment of \$5.3m was to BPV. Pohutukawa (PPE) has invested close to \$1.9m in BPV to date:

**New Zealand Pharmaceutical** - PPE has a \$516,000 investment via BPV. See earlier NZP comments.

**Cleveland Biosensors Pty Ltd** – The convertible loan was repaid in full, with interest, shortly after the end of the quarter (received 27 July 2007). BPV has no further investment interest in this company. The funds will be applied towards the next BPV investments.

### **Vital Food Processors Ltd** –

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

Vital is an Auckland based food manufacturing company whose principal activity is the processing of fresh fruit into a range of high value functional foods and nutraceutical products.

The focus this quarter has been on completing clinical trials, writing up the scientific data produced from the trials and preparing for the launch of their new product, Phloe (a 100% natural digestive aid), in New Zealand.

Phloe is being sold into both Progressive and Foodstuffs supermarkets nationwide and also in pharmacies through Richmond Health. The TV and media advertising campaign is on during August.

**Horizon Science** - is an emerging technology company based in Melbourne, Australia, developing nutraceuticals from food by-products. Its initial focus is on some powerful natural chemicals in sugarcane, which affect the absorption of food and its conversion into fat or muscle. Horizon has a strong potential lead product, a Low Glycemic Index (Low GI) sugar, backed by a strong suite of patents.

BPV's international network and experience in the nutraceuticals market is expected to add significant value to the Horizon business going forward.

Horizon Science is in early development phase, and as such it's financial performance is dictated largely by expenditure on R&D. In terms of output from the R&D though, the company remains substantively on track.

**Karios Holdings Limited** – is a sole purpose company established to purchase a shareholding in NZX listed Wool Equities Limited ("WEL") - [www.woolequities.co.nz](http://www.woolequities.co.nz)

WEL is a company commercialising IP arising from more than 10 years R&D at the NZ Wool Board. Its major asset is a 95% ownership in Keratec, a company with a wide portfolio of naturally derived, naturally active hair and skin therapies based on a family of wool proteins called keratins. Keratec is also developing wound healing and nutraceutical product applications based on keratins. WEL's other assets are also in commercialisation of wool science. Wool Equities has made no significant announcements in the quarter.

### **Novotech (Australia) Pty Limited** –

[www.novotech-cro.com](http://www.novotech-cro.com)

In May 2007 an investment was made in Novotech Australia. Novotech is Australasia's largest Contract Research Organisation providing a wide range of outsourced clinical drug development services (including data management and regulatory affairs). Novotech has operations in NZ, Australia and the USA.

BPV (together with Sydney based private equity house, Co-Investor) completed an A\$8m investment in Novotech on 1 May 2007. (The parties have made an initial investment of A\$4m with further investment of A\$4m committed to fund Board approved acquisitions).

Despite the impact of the exchange rate Novotech has finished the year profitably.

### **Rissington Breedline Ltd (RBL)** -

[www.rissington.com](http://www.rissington.com)

The RBL investment was made in May 2007. RBL is a privately owned NZ

# Investment Report

genetics company focused on developing an integrated supply chain for high quality lamb and beef, driven by breeding for attributes of value to meat consumers. RBL's business involves breeding elite sheep and cattle (non-GM), selling and distributing their genetics (via selling own breed, high value sires), measuring the rate of genetic gain, and developing, owning, protecting and exploiting related IP. BPV (alongside inventages) has completed an investment into RBL in order to allow the company to extend its operations further down the supply chain, engaging with UK and South American consumer markets.

Good early progress has been made in the June quarter, with rationalisation of the previously complex South American operations, and further development of supply chain plans.

## *EnCoate Ltd* – [www.encoate.com](http://www.encoate.com)

The EnCoate investment was made post quarter end, in July 2007. EnCoate is a New Zealand company founded on the development of biopolymers, which can be used to preserve microbes. Their lead product, already in the market for 2 years, is used to keep grub-killing bacteria alive

so that they can be spread on pastures and survive sun and dehydration. The next focus of the company is on the rapidly growing global market for probiotics, or health giving bacteria, in human foods. A family of patents protects the technology and the company is closely engaged with the inventing scientists in AgResearch, who are continuing to develop diverse new applications under contract to EnCoate.

## *Anzamune*

Anzamune is the most recent BPV investment. Anzamune is developing a natural product as a therapeutic drug for use in allergy prevention. The product, discovered by one of the company's founders at Cambridge University, is based on chitin, a natural product found widely in shellfish and insect shells. The company has purchased intellectual property from the founder's UK firm CMP Therapeutics, and will apply that IP in Australia and New Zealand, where allergies are significantly more severe than globally. Anzamune will develop a narrowly focused clinical trial program to take the drug through to market.

## Investment Update

**Pohutukawa has made investment commitments of \$23.2m in total (43.77% of the fund's investment capital) of which \$18.14m (or 34.23%) has been invested to date.**

BPV has been actively investing during the quarter with the Novotech and Rissington investments, a further follow-on investment in Vital, plus the recent investment in EnCoate and Anzamune. Pohutukawa has approximately \$1m allocated for follow-on investment in the existing BPV companies over the next 3-12 months.

Our investment team has been busy assessing a large number of investment proposals and there are likely to be two further deals that could progress to completion over the next 2-3 months and we will communicate these further investments to you as they occur.

POHUTUKAWA MANAGEMENT LTD



## Financial Information

### Consolidated interim income statement

For the six months ended 30 June 2007

		Unaudited	Unaudited	Audited
	Note	Jun 2007	Jun 2006	Dec 2006
Interest Income		198,862	378,841	716,697
Change in fair value of investments	2	3,486,595	-	4,306,809
Other operating income		89,089	251,600	335,029
Administrative expenses		(773,529)	(805,110)	(1,609,958)
<b>Operating profit/(loss)</b>		<b>3,001,017</b>	<b>(174,669)</b>	<b>3,748,577</b>
<b>Profit/(loss) before and after tax</b>		<b>3,001,017</b>	<b>(174,669)</b>	<b>3,748,577</b>
<b>Attributable to:</b>				
Equity holders of the parent		(485,578)	(174,669)	(558,232)
Minority Interest	1b	3,486,595	-	4,306,809
<b>Profit/(loss) for the period attributable to the equity holders of stapled securities</b>		<b>3,001,017</b>	<b>(174,669)</b>	<b>3,748,577</b>

### Consolidated interim statement of recognised income and expense

For the six months ended 30 June 2007

		Unaudited	Unaudited	Audited
	Note	Jun 2007	Jun 2006	Dec 2006
<b>Profit/(loss) for the period</b>		<b>3,001,017</b>	<b>(174,669)</b>	<b>3,748,577</b>
<b>Total recognised income and expense for the period</b>		<b>3,001,017</b>	<b>(174,669)</b>	<b>3,748,577</b>
<b>Attributable to:</b>				
Equity holders of the parent		(485,578)	(174,669)	(558,232)
Minority interest	1b	3,486,595	-	4,306,809
<b>Total recognised income and expense for the period</b>		<b>3,001,017</b>	<b>(174,669)</b>	<b>3,748,577</b>



## Financial Information

### Consolidated interim balance sheet

As at 30 June 2007

	<i>Note</i>	Unaudited <b>Jun 2007</b>	Unaudited <b>Jun 2006</b>	Audited <b>Dec 2006</b>
<b>Assets</b>				
Investments	2	24,957,751	10,535,917	17,747,884
<b>Total non-current assets</b>		<b>24,957,751</b>	<b>10,535,917</b>	<b>17,747,884</b>
Term deposits		2,200,000	10,173,847	6,840,000
Trade and other receivables		23,345	103,394	39,145
Cash and cash equivalents		500,647	254	53,347
<b>Total current assets</b>		<b>2,723,992</b>	<b>10,277,495</b>	<b>6,932,492</b>
<b>Total assets</b>		<b>27,681,743</b>	<b>20,813,412</b>	<b>24,680,376</b>
<b>Equity</b>				
Issued capital		20,950,000	20,950,000	20,950,000
Retained surplus/(deficit)		(1,113,739)	(244,598)	(628,161)
<b>Total equity attributable to equity holders of the parent</b>		<b>19,836,261</b>	<b>20,705,402</b>	<b>20,321,839</b>
<b>Minority interest</b>	3	<b>7,793,404</b>	<b>-</b>	<b>4,306,809</b>
<b>Total equity attributable to equity holders of stapled securities</b>		<b>27,629,665</b>	<b>20,705,402</b>	<b>24,628,648</b>
<b>Liabilities</b>				
Trade and other payables		52,078	108,010	51,728
<b>Total current liabilities</b>		<b>52,078</b>	<b>108,010</b>	<b>51,728</b>
<b>Total liabilities</b>		<b>52,078</b>	<b>108,010</b>	<b>51,728</b>
<b>Total equity and liabilities</b>		<b>27,681,743</b>	<b>20,813,412</b>	<b>24,680,376</b>



## Financial Information

### Consolidated interim statement of cash flows

For the six months ended 30 June 2007

	Unaudited Jun 2007	Unaudited Jun 2006	Audited Dec 2006
<b>Cash flows from operating activities</b>			
Cash receipts from fees	89,089	251,600	335,029
Interest received	207,920	442,126	775,609
Cash paid to suppliers	(766,437)	(575,948)	(1,362,418)
Income taxes received	-	-	-
<b>Net cash from operating activities</b>	<b>(469,428)</b>	<b>117,778</b>	<b>(251,780)</b>
<b>Cash flows from investing activities</b>			
Proceeds from term deposits	4,640,000	-	3,160,000
Acquisition of other investments	-	(173,847)	-
Acquisition of investments	(3,723,272)	(60,236)	(2,971,432)
<b>Net cash from investing activities</b>	<b>916,728</b>	<b>(234,083)</b>	<b>188,568</b>
<b>Cash flows from financing activities</b>			
<b>Net cash from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net movement in cash and cash equivalents	447,300	(116,305)	(63,212)
Cash and cash equivalents at beginning of period	53,347	116,559	116,559
<b>Cash and cash equivalents at end of period</b>	<b>500,647</b>	<b>254</b>	<b>53,347</b>

# Financial Information

## Notes to the consolidated interim financial statements

### 1. Significant accounting policies

Pohutukawa Private Equity Limited (the "Company") is a company domiciled in New Zealand. The consolidated interim financial statements of the Company for the six months ended 30 June 2007 comprise the Company and 25 Investment Companies (together referred to as the "Group").

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2006, apart from one change. Director's valuation of investments will now occur semi-annually, rather than annually as disclosed in the 31 December 2006 financial statements (refer Note 1(c) below).

#### (a) Statement of compliance

The consolidated interim financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standard (NZ IFRS) NZ IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2006.

#### (b) Basis of preparation

Pohutukawa Private Equity Limited and the 25 Investment Companies are registered under the *Companies Act 1993* and are issuers and reporting entities for the purposes of the *Financial Reporting Act 1993*. The financial statements have been prepared in accordance with the *Financial Reporting Act 1993*. The Company is a profit-orientated entity.

The financial statements are presented in New Zealand dollars. They are prepared on the historical cost basis except that certain financial instruments are stated at their fair value.

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.

*Minority interest* refers to the equity of the Investment Companies as this is owned directly by shareholders of the parent, via preference shares, and the Manager (Pohutukawa Management Limited) via ordinary shares, and not by the parent company itself. These minority interests are attributable to the parent company shareholders and Manager as a result of their direct investment in the shares of the Investment Companies.

#### (c) Investments in equity securities

The Group's investments in equity securities are classified as non-current assets and are stated at fair value, with any resultant change in fair value recognised in the income statement.

The fair value of financial instruments measured at their fair value is their quoted bid price at the balance sheet date, if available, or valuations. Investments in unlisted equity securities are valued at Directors' valuation in the year of acquisition and subsequently by semi-annual valuations carried out in accordance with the valuation principles set out by Australian Venture Capital Association Limited (AVCAL).

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## Notes to the consolidated interim financial statements

### 2. Investments

#### Non-current investments

Equity securities carried at fair value

Unaudited Jun 2007	Unaudited Jun 2006	Audited Dec 2006
24,957,751	10,535,917	17,747,884
24,957,751	10,535,917	17,747,884

#### Non-current investments

The Group has a number of investments in unlisted equity securities. Group policy is to carry these investments at fair value with subsequent movements in fair value recognised in the income statement. As there is no quoted market price for these securities, valuation techniques must be utilised to determine fair value.

The valuation technique utilised includes the use of market based earnings multiples and a marketability discount in the range from 10% to 30% for privately owned investments.

Entity name	Activities	Acquisition date	Voting interest	Cost of acquisition
Max Retail Holdings Limited	Retail fashion stores	July 2005	30.7%	3,618,000
Express Logistics Group Limited	Transport logistics	Oct 2005	20.3%	2,308,674
NZPH Investments Limited	Pharmaceutical manufacturer	Nov 2005	15.8%	4,142,685
BiopacificVentures	Private equity vehicle	Nov 2005	11.0%	1,790,731
International Forwarding Limited	Logistics	Oct 2006	22.4%	873,502
PHS Holdings Limited	Hearing aid retailer	Nov 2006	18.7%	1,309,614
Paper Coaters Group Limited	Manufacturing	Apr 2007	33.3%	3,121,141
				17,164,347

### 3. Minority interest

	Unaudited Jun 2007	Unaudited Jun 2006	Audited Dec 2006
Attributable to preference shareholders of the Investment Companies	6,512,140	-	4,306,809
Attributable to ordinary shareholders of the Investment Companies	1,281,264	-	-
	7,793,404	-	4,306,809

Preference shareholders are the individual investors of the parent company, Pohutukawa Private Equity Limited. The Ordinary shareholder of the Investment Companies is the Manager, Pohutukawa Management Limited.

The split of minority interest is in accordance with the Prospectus and Investment Statement dated 2 September 2004, and the constitutions of the Investment Companies.

