

Pohutukawa



INTERIM REPORT

For the period ended 30 June 2006

Letter from the Chairman

15 September 2006

Dear Shareholder

This communication is our formal semi-annual report and includes a summary of Pohutukawa's financial performance to 30 June 2006 plus an update by the manager on the Fund's portfolio performance and investment activities to date.

In terms of investment progress, this year has been somewhat frustrating for us in that we have not managed to complete further direct investments to this point. This is despite the investment team actively reviewing a good level of prospects. Although we are unable to comment in too great a detail we do have an expectation of being able to announce our next investment in the coming weeks in the freight forwarding-logistics area. We also have two other investment opportunities that we are actively pursuing, one in the health care service sector and the other in the financial services sector.

Pohutukawa's capital can be invested in two ways, one by making stand alone investments in new companies and secondly by making "follow on" investments into our existing portfolio companies eg to enable them to make complementary acquisitions and grow their business generally. Already, a significant number of the investment prospects being reviewed are being done so in conjunction with our existing portfolio company partners and this will increase as our stable of companies grows.

It is pleasing to see that our portfolio companies are in the main either

performing to budget or ahead of budget. The board is delighted with the growth and development of each of the companies and believe they offer genuine potential to increase value for Pohutukawa shareholders. Under AVCAL guidelines, investments are required to be revalued 12 months after investment. Accordingly a revaluation of our Max investment will be made at 30 September and we expect to record an increase in value at that time. Our December year-end results will also include revaluations for Express and New Zealand Pharmaceuticals.

The private equity investment sector is increasingly more competitive particularly in the \$100m+ valuation bracket where offshore private equity funds are now playing a major hand. However, Pohutukawa is focussed on the under \$100m sector of the private equity market so we are not competing head-on with the larger private equity funds to the same extent. We will consider investments of that size, but would do so in conjunction with co-investors.

I have highlighted before that private equity investing requires patience. We look at the long-term investment horizon and although I can appreciate some degree of frustration at our perceived slow progress I believe that where we sit today, with 33% of the available capital committed to investments, that we are progressing in line with our 3-5 year investment timeframe. We will continue to maintain our commercially prudent approach to prospective investments and we are not prepared to compromise on our quality approach, or enter into bidding wars and pay inflated prices for our investments.

We are seeing a good level of referrals coming from the Direct Capital and ABN AMRO Craigs relationship and as noted above we are also beginning to see opportunities for expansion within our existing portfolio of companies.

In terms of the next call this now looks like being in the first quarter of 2007 and we will provide you with 90 days notice of this.

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

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

Yours sincerely
POHUTUKAWA PRIVATE EQUITY LTD



JON CIMINO
Chairman

Investment Report

15 September 2006

Report on Portfolio Companies

Max Retail Holdings Limited (Max)

Our first direct investment was into Max where we invested \$3.6 million and have committed to a further \$1.6m to support further expansion initiatives. Pohutukawa holds a 30.70% investment in Max.

Max is one of New Zealand's leading women's apparel labels, Max Fashions, appealing to predominantly an 18-35 year old customer base, with 38 stores around the country.

Max's trading performance since Direct Capital's investment just over 12 months ago has been ahead of our expectations and the company continues to trade extremely well despite the increasingly challenging environment for retailers. The last six months have also been a busy period for store growth and development. New stores have been opened in Te Rapa, Hamilton and at Sylvia Park in Auckland. A larger re-formatted store has been opened in Queenstown and an enlarged flagship store on Auckland's Queen Street. Watch out for the upcoming season's "21st birthday" advertising campaign and associated events.

Under AVCAL guidelines, a revaluation of our investment in Max is due to be made at the end of September and we expect to record an increase in the value of our investment at that time.

Express Logistics Group Ltd (Express)

Our second direct investment was into Express. Pohutukawa invested \$2.125m for a 20.3% stake in the company. We have committed a further \$787,000 to the company for expansion purposes.

Express is an Australasian international logistics service provider offering a complete range of import, export and supply chain logistics services. Express has operations throughout New Zealand, and Brisbane, Melbourne and Sydney.

The company has been actively looking to expand its operations, both by organic growth and bolt on acquisitions. Two acquisitions have been successfully implemented in New Zealand namely the forwarding business of NZ Express in Christchurch and Hawkes Bay Customs. These acquisitions offer further scale efficiency and the opportunity to leverage Express's relatively broad service offering.

Express has had an excellent year with the trading result for the 12-month period to June 2006 ahead of budget and with good results across the business generally, both in New Zealand and Australia. EBIT for the full year period was a significant 18.4% increase on the pcp EBIT to June-2005. The 2007 budget targets continuing growth in both markets, highlighting the spread of both import and export operations.

New Zealand Pharmaceutical Holdings Ltd (NZP)

Our third direct investment was into NZP. Pohutukawa invested \$4.142m for a 15.8% stake, plus a further investment into NZP via BioPacific Ventures.

NZP manufactures specialty chemicals for some of the world's leading pharmaceutical companies.

NZP's performance has been above budget since our investment in November of last year. As an almost exclusively export business, the fall in the NZ\$ is helping offset what is expected to be a short-term reduction in demand and price in the bile acid market.

NZP's new glycotherapeutics plant is due to be in operation late November-December and is scheduled to be officially opened by the Prime Minister Helen Clark in February 2007.

A number of key executive appointments have been made over the first six months of the year. These appointments reflect the underlying growth in the company, succession planning for the business and as part of the process of preparing NZP

for a public listing, which NZP is targeting within the next 2 years.

BioPacific Ventures

Our first investment commitment of \$5.3 million was to BioPacific Ventures (BPV). Pohutukawa has invested close to \$746,000 in BPV to date.

Cleveland Biosensors Pty Ltd - a Queensland based start-up company with on the spot water testing technology.

Pohutukawa has AU\$68,500 invested in Cleveland via BPV, which has a \$1m convertible note holding maturing in May 2007. Cleveland can choose to repay the convertible note at that time, or otherwise BPV could convert to equity.

Vital Food Processors Ltd - 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 company is in the transition phase, moving away from a distributor based product strategy toward a branded product strategy and this as expected has impacted on sales in the short-term. BPV is wholly supportive of this change to a branded product strategy.

New Zealand Pharmaceutical - Pohutukawa has a \$516,000 investment via BPV. See comments above.

Investment Update

Pohutukawa has made investment commitments of \$17.6 million in total (33% of the fund's investment capital) of which \$10.6 million (or 20%) has been invested to date.

The most recent investments have been those made through BioPacific Ventures. The investments include AU\$59,000 into Horizon Science Pty Ltd, an Australian based company focused on finding and marketing bio-actives from food; and a further \$22,000 into Vital Foods, bringing our total investment in Vital to around

Investment Report

\$85,000. BPV has a number of interesting investments that it is close to finalising and we would expect to see market announcements on these in the short term.

Although we are conscious we have not made any further direct investments this

year, our investment team has been busy assessing a large number of investment propositions. We do have one deal that we are close to finalising and would expect to make a market announcement in the next few weeks. We have also made significant progress on two other investments, are pursuing a number of

further opportunities with vigour, and are hopeful of having further announcements to make before the end of the year.

POHUTUKAWA MANAGEMENT LTD

Summary of Financial Performance to 30 June 2006

As part of this formal six monthly report we include a summary of the interim unaudited financial statements to 30 June 2006. Our investments to date are reflected in these accounts. The Accounts

show that as at 30 June, there were shareholders' funds of \$20.7 million (down \$225,000 from the previous corresponding period). Income amounted to \$630,000 including interest and fee

income from direct investments and BioPacific Ventures. Expenses were \$805,000 resulting in a deficit of \$175,000 for the period.

SUMMARY FROM THE INTERIM FINANCIAL STATEMENTS (UNAUDITED) TO 30 JUNE 2006

SUMMARY OF FINANCIAL PERFORMANCE

For the six months ended 30 June 2006

	6 months to 30-Jun-06 \$000	6 months to 30-Jun-05 \$000	Year Ended 31-Dec-05 \$000
Revenue	630	817	1,518
Expenses	805	801	1,552
Operating surplus/(deficit) before tax	(175)	16	(34)

STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 30 June 2006

Net surplus/(deficit) for period	(175)	16	(34)
Total movement for period	(175)	16	(34)
Equity at beginning of period	20,880	20,914	20,914
Equity at end of period	20,705	20,930	20,880

STATEMENT OF FINANCIAL POSITION

As at 30 June 2006

Assets	20,813	20,950	20,934
Liabilities	108	20	54
Equity	20,705	20,930	20,880