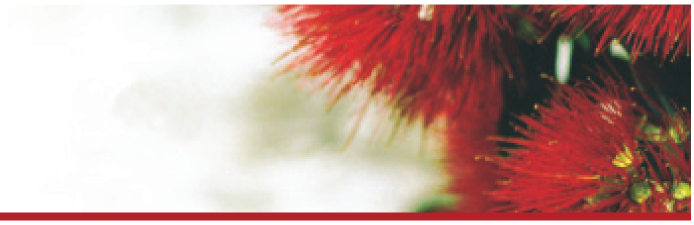
Pohutukawa

ANNUAL REPORT

For the year ending 31 December 2006

Contents



Report to Investors

12 April 2007

Dear Shareholder

2006 was notable for the level of private equity activity and competition in New Zealand with both local and offshore private equity firms bidding for new investments here. In light of this competitive environment we were pleased to complete two new direct investments, Gluck and Professional Hearing and three indirect investments through BioPacificVentures.

The two direct investments made during 2006 were:

- **October 2006** - Our investment into International Forwarding Limited (IFL) for an amount of $873k for a 22.4% stake. IFL secured a 20% stake in the Australian supply chain services company, Gluck Pty Limited, of which Pohutukawa has a 4.5% shareholding. Gluck is one of Australia's larger privately owned supply chain service companies.
- **November 2006** – Pohutukawa invested $1.3m for an 18.7% shareholding in PHS Holdings Limited (PHS – Professional Hearing Services), a Waikato/Bay of Plenty hearing aid retail business providing hearing tests and hearing aid fitting services.

Pohutukawa also made further investments through BioPacificVentures (BPV):

- **July 2006** – An investment in Horizon Science Pty Limited, an emerging Australian food technology company developing nutraceuticals from food for AU$293k for a 2.8% shareholding.
- **October 2006 & December 2006**– In October BPV acquired an initial .95% shareholding in NZAX listed biotech company Wool Equities, through Karios Holdings Limited. Then in December BPV raised its stake in the company further to around 16.03%.
- **November 2006** – a further investment of $107k was made in Vital Food Processors Limited; an Auckland based food-manufacturing company involved in the processing of fresh fruit into high value functional food and nutraceutical products. This brought the total investment in Vital to $192k.

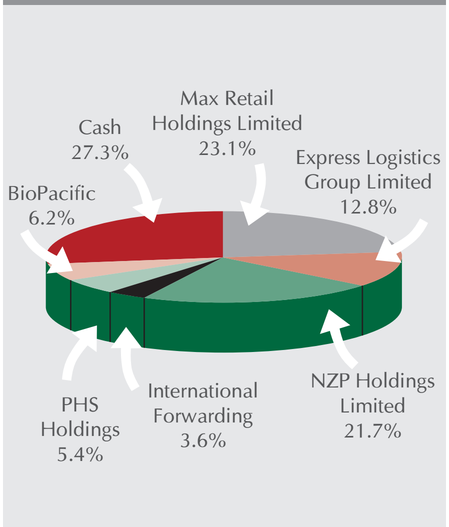
The Manager is actively pursuing a number of prospective deals and expects to make an announcement on the completion of Pohutukawa's next direct investment within the next month.

I am pleased with both the development of the investment portfolio and the diversification of investments within the portfolio and the performance of the portfolio companies. We have made five direct company investments into: Max Fashions (Max), Express Logistics (Express), International Forwarding (Gluck), NZ Pharmaceuticals (NZP), and PHS Holdings (PHS), while through BioPacificVentures (BPV) investments include Cleveland Biosensors, NZP, Vital Food Processors, Horizon Science, and Karios Holdings (into Wool Equities).

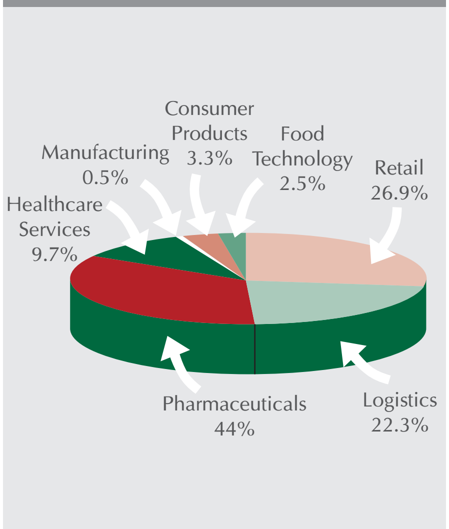
The following charts show:

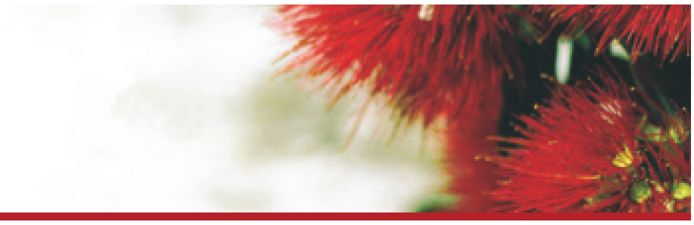
1. *A breakdown of our direct investments, BPV investments and cash available for investment to the end of March 2007.*
2. *Pohutukawa Industry Exposure*

1. Pohutukawa Investments to 31 March 2007



2. Pohutukawa Industry Exposure





Report to Investors

Pohutukawa has invested $13.4m to date (25.3% of Pohutukawa's $53m investment capital) with a further $6.3m committed for investment (including the remaining BPV commitment). This brings the total Pohutukawa investments and commitments to 37.1% of total potential investments.

Investment Revaluations

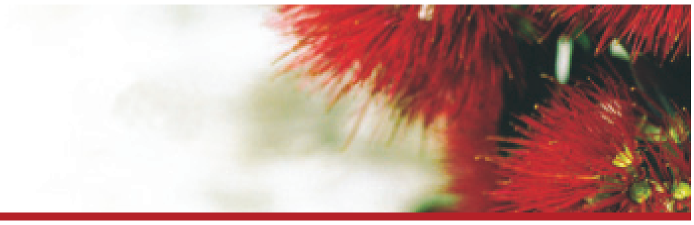
As outlined in the Prospectus, the Manager intends to regularly revalue the portfolio. Under the private equity body 'AVCAL' guidelines this revaluation is completed on the first anniversary for each portfolio investment and annually thereafter. At 31 December 2006 the Manager using the AVCAL valuation guidelines valued the direct investments in Max Fashions, Express Logistics and New Zealand Pharmaceuticals. These investments, which have a cost to Pohutukawa of $9.886m, were valued at $14.049m, representing a gain of $4.163m.

The Manager continues to be pleased with the performance of the portfolio companies, which are all tracking in line or ahead of the original base-case budget expectations.

The following summary of our investments to the end of March 2007, both in dollar terms and as a percentage of shareholding (where applicable) in the individual companies, shows the comparison between the cost value $13.4m and the current fair value of the investment portfolio, $17.7m. This shows an increase of 31.94% with our larger investments to date having the main affect.

Schedule of Investments to 31 March 2007	Date of Investment	Industry	Stage	Initial Investment (NZ$000)	Shareholding %	*Investments with Revaluations (NZ$)
Direct Investments						
Max Retail Holdings Limited	July-05	Retail	MBO	$ 3,618	30.70	*
Express Logistics Group Limited	October-05	Logistics	MBO	$ 2,125	20.30	*
NZ Pharmaceuticals	November-05	Pharmaceuticals	Pre IPO	$ 4,143	15.80	*
International Forwarding Ltd	October-06	Logistics	Expansion	$ 874	22.40	
PHS Holdings Ltd	November-06	Healthcare Services	Expansion	$ 1,310	18.70	
Total Direct Investments				**$ 12,069**		
BioPacificVentures Investments						
Cleveland Biosensors Pty Limited	November-05	Manufacturing	Early	$ 72	Conv Note	
NZ Pharmaceuticals	November-05	Pharmaceuticals	Pre IPO	$ 515	1.97	*
Vital Food Processors Limited	Feb, Oct, Dec -06	Consumer Products	Early	$ 192	4.40	
Horizon Science Pty Ltd	Jul, Nov - 06	Food Technology	Early	$ 334	2.75	
Karios Holdings	Oct, Dec - 06	Consumer Products	Early	$ 256	6.28	
Total BPV Investments				**$ 1,369**		
Total Pohutukawa Investments				**$ 13,438**		**$ 17,730**

MBO = Management Buy Out   Pre IPO = Preparing to be listed on the NZX   Expansion = Business in growth mode
Early = Early stages of commercialisation, either for the company or a particular product



Report to Investors

Annual Financial Statements and Audit Report 31st December 2006

Our Financial Statements for the 12-month period to 31 December 2006, Directors' Report and the KPMG Audit Report are included in this annual report.

Pohutukawa has 53,000,000 shares on issue as at 31 December 2006, these are $1 shares partly paid to 40 cents.

The Financial Statements show that portfolio investments have moved from $10.5m in 2005 to $17.7m as at 31 December 2006. This includes the new investments International Forwarding and PHS Holdings ($2.18m), plus the effect of revaluations of the portfolio under the fair value method.

Pohutukawa Performance Summary
For the year ended 31 December 2006

		2006 $000	2005 $000
Operating Results			
Interest Income		706	1,240
Other Income		335	277
Change in fair value of investments		4,307	-
Operating expenses		1,610	1,552
Profit after tax		3,749	(34)
Share Performance			
Shares on issue	$1.00	53,000,000	53,000,000
Paid to	40c		
Net asset backing - cents per share		46 cents	39 cents
Earnings per share		7.07 cents	-

Interest income was $716k and the movement in fair value of investments of $4.3m is also shown in the income statement. Operating costs including management fees recorded a small increase on last year. There were no dividends to declare from the portfolio companies, however it will be our intention to pay dividends when the portfolio companies' capital structures allow. The profit for the period was $3.7m, resulting from the revaluation of some of the portfolio companies and this reflects the underlying performance of those portfolio companies.

The Financial Statements show that at balance date we had shareholders' funds of $24.6m comprising investments of $17.7m plus term deposits and cash of $6.8m. The item Minority Interest refers to the equity of the Investment Companies, as this is owned directly by shareholders of the parent and not by the parent company itself. These minority interests are attributable to the parent company shareholders, as a result of their direct investment in the preference shares of the investment companies.

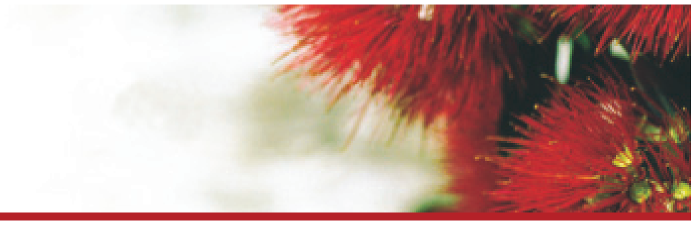
The cash balance continues to be invested in short-term deposits with ABN AMRO Craigs Cash Management Trust Limited (a $600m Cash Management Trust). The current average rate of return on the deposits is 7.6% pa.

The Manager

One of the roles of the Pohutukawa Board is to review the Manager's performance. This review was undertaken at the end of 2006 and the Board considered the services and activities of the Manager including all aspects of the Fund's administration; investor communications; statutory reporting and governance support for the Board. The Board found the Manager to be performing to the expected standards in all respects.

Despite market competitiveness, Direct Capital continues to access good deal-flow – in many cases outside of formal tender processes. Strong performance of all existing portfolio companies highlights a sound investment process. During 2006 the Manager reviewed 110 prospective investments so there is no shortage of potential opportunities, however the focus lies with quality investments that must meet our strict investment criteria.

The PHS transaction has highlighted the potential to work with management buy-in candidates on buy and build or 'roll up' investments. Greater flexibility will be maintained around small initial



Report to Investors

deal/investment size, provided:

- The business/industry opportunity is significant
- We are investing alongside a management team capable of creating and managing a significantly larger business

Follow on investment in existing portfolio companies should increasingly contribute to new investment commitments. This opportunity is enhanced by the fact that all portfolio companies are performing strongly.

Opportunities are presently being reviewed for all existing portfolio companies, many of which would require significant additional capital.

30 Cent Call

As noted earlier, we are working hard to secure our next investment and hope to be in a position to announce this soon. Should this investment proceed it will necessitate making the second capital call of 30 cents per share. We will provide you with 90 days notice when this occurs.

Secondary Market

ABN AMRO Craigs facilitates a secondary market for your Pohutukawa shares, details of which are available on the Pohutukawa website www.pohutukawafund.co.nz

The last sale price on 30th March 2007 was 50 cents while the net asset backing is 46 cents.

Annual Shareholders Meeting

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

- **Date: Tuesday, 15 May 2007**
- **Time: 2.30pm**
- **Place: ABN AMRO Craigs Ltd, Level 32,Vero Centre, 48 Shortland Street, Auckland**
- **RSVP: Contact Peter Lalor on 07 5774 727 or enquiries@pohutukawafund.co.nz by 4th May 2007.**

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

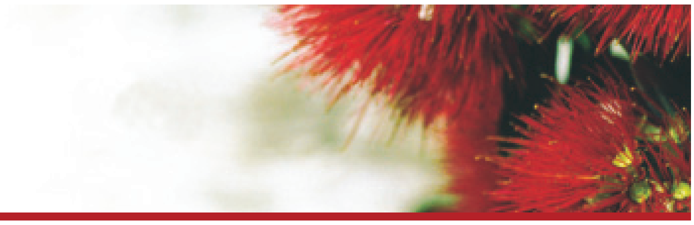
We will continue to keep you informed as investments are made by Pohutukawa through press announcements, by letter (for direct investments) and through news updates on our website.

Thank you for your ongoing support of Pohutukawa and I trust that you are pleased with the performance of the investments we have made for you to date.

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

Yours sincerely,
POHUTUKAWA PRIVATE EQUITY

JON CIMINO
Chairman



Report on Portfolio Companies

MAX FASHIONS

Date of Investment	Industry	Stage	Total Initial Investment $000	Shareholding %
July 2005	Retail	MBO	$3,618	30.70

Background

Max Retail Fashions (Max) is one of New Zealand's leading women's apparel labels appealing predominantly to an 18-35 year age group. First established in 1985 by David Wright, it has 38 stores throughout New Zealand.

In July 2005, Pohutukawa participated in the succession buyout of the business from David Wright and acquired a 30.7% stake in the business.

Performance

The cold weather and slow start to summer for many parts of the country affected most apparel retailers, and this had an impact on Max's summer season result. Notwithstanding this, the EBIT result achieved for the financial year to 31 January 2007 was still ahead of Direct Capital's projections at the time of the investment, representing a very pleasing result.

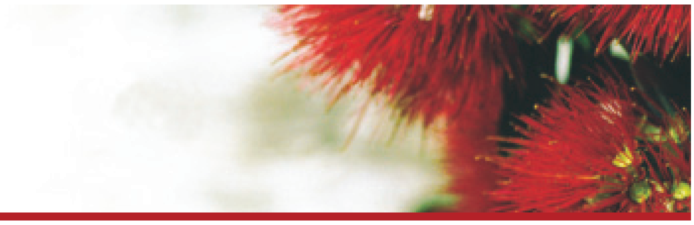
Outlook

During the quarter Mike Beagley was appointed as Managing Director of Max, commencing in the role mid January. Until recently Mike has been Managing Director of apparel chain Rodd & Gunn and footwear retailer Hannahs. Mike's role with Hannahs ceased towards the end of 2006. Mike is a highly experienced retailer and has been known to Direct Capital for some time as a Non Executive Director of Direct Capital portfolio company Just Kids. Mike has been responsible for leading a multi-branded apparel group and has extensive Australian retail experience; his appointment in this position is extremely positive for Max.

Max was also pleased to announce that Sandy Burgham, long term brand and marketing adviser to Max, has been appointed to the Max Board as a Director. Sandy's commercial expertise and knowledge of Max make her a valuable addition to the board.

During 2006 Max opened new format stores in Queenstown and in Auckland on Queen Street and Sylvia Park. Feedback has been very positive from customers and the retail industry generally. The new 'Women's Republic of New Zealand' campaign has been well received and trading for the start of the winter season has been strong.

The Max team continue to review a number of strategic growth initiatives in New Zealand and Australia.



Report on Portfolio Companies

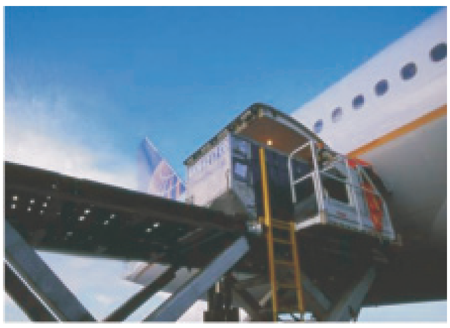
EXPRESS LOGISTICS

Date of Investment	Industry	Stage	Total Initial Investment $000	Shareholding %
October 2005	Global Logistics	MBO	$2,125	20.3

Background

Express Logistics (Express) is an Australasian-based international logistics service provider offering a complete range of import, export and supply chain logistic services. Express is based in Auckland and Sydney, with operations in Christchurch, Palmerston North, Napier, Wellington, Brisbane, Melbourne and Perth.

Approximately 50 Express employees are shareholders in the business.



Performance

Express has recorded a solid trading performance for the period to the end of December with EBIT strongly ahead of the same period last year.

During the period Howard Bretherton was appointed to the Express board as Non-Executive Director. Bretherton was involved in the successful development of Michael Hill Jewellers, which he joined when the business had just 2 stores, rising to Joint Managing Director until 2003. More recently, Bretherton has been a Non-Executive Director of apparel retailer Hallensteins Glassons and various other private companies. Howard is known to Direct Capital through his involvement in Professional Hearing Services and his appointment is a positive development for Express.

Outlook

Historically, Express has achieved impressive growth organically through the recruitment and retention of high-performing staff, supplemented by complementary purchases of small add-on businesses and these themes will continue to be important to the businesse's ongoing growth and development.

A new office was opened in Perth in 2006 and Express has identified further expansion opportunities in Australia including acquisitions. The Auckland operation is scheduled to expand its office, which will increase its handling capacity by 50%.

Report on Portfolio Companies

NEW ZEALAND PHARMACEUTICALS

Date of Investment	Industry	Stage	Total Initial Investment $000	Shareholding %
November 2005	Pharmaceuticals	Pre-IPO	$4,142	15.80
November 2005	Pharmaceuticals	Pre-IPO	$515	1.97*

* Through BioPacificVentures

Background

First established in 1971, New Zealand Pharmaceuticals (NZP) is involved in producing specialty chemicals for the pharmaceutical industry. In particular, it is a world leader in the production of cholic acid, a core ingredient in the manufacture of a number of liver-related pharmaceuticals. In addition to its animal extracts business, NZP is becoming increasingly involved in the production of synthesized carbohydrates (or 'glycotherapeutics') for the global pharmaceuticals industry. ManNAc is the first of what NZP hopes will be a number of synthetic compounds used in the manufacture of glycotherapeutic drugs. The drugs form a large and fast-growing category of the global pharmaceuticals market and are increasingly significant to NZP's business. NZP has further strengthened its position in this niche sector by partnering with Industrial Research Ltd (IRL), a Crown Research Institute.

Performance

NZP's financial result for the financial year to 30 September 2006 was in line with expectations at the time of Direct Capital's investment. While NZP's trading has been strong, as an almost exclusively export business the high Kiwi dollar does impact performance.

NZP was a finalist in the annual New Zealand Export Awards held in November.

Outlook

Prime Minister Helen Clark officially opened NZP's new glycotherapeutics factory on 22 February 2007. The new factory will significantly increase NZP's glycotherapeutic manufacturing capability and is a major development in this part of NZP's business. Glycotherapeutics are a new approach in drug delivery mechanisms and are being used by the pharmaceutical industry to develop drugs to combat a variety of diseases including heart disease and cancer. NZP is positioned to use its core competency in the extraction, purification and manufacture of specialty biochemicals to significantly grow the business over the next 10 years.

The NZP management team and board remain focused on seeking a public listing towards the end of this year or in 2008.

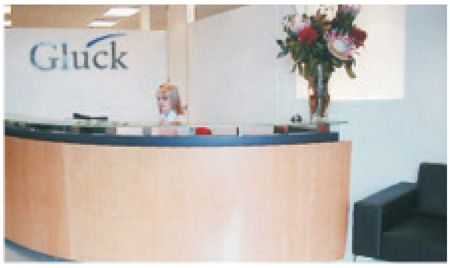
Report on Portfolio Companies

INTERNATIONAL FORWARDING LIMITED

Gluck
Since 1972

Date of Investment	Industry	Stage	Total Initial Investment $000	Gluck Shareholding %
October 2006	Global Logistics	Expansion	$873	4.5

International Forwarding Ltd's (IFL) initial investment was a 20% shareholding in the Australian logistics company Gluck Pty Limited, (Gluck), of which Pohutukawa has a 4.5% stake.



Background

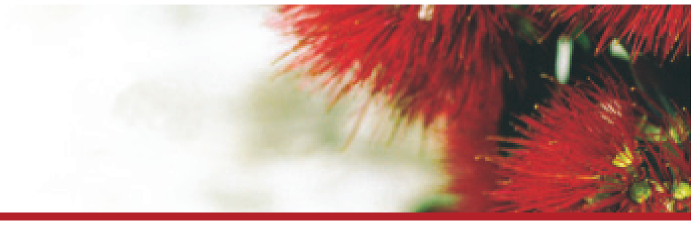
In October 2006 International Forwarding Ltd acquired an initial shareholding in Gluck. Gluck is a global logistics management provider specialling in innovative supply chain solutions for clients. Gluck is one of Australia's larger privately owned supply chain services companies employing over 150 people throughout Australasia. Gluck's range of services includes: import and export freight forwarding - air or sea freight; door to door transportation; customs clearance services; local third party logistics (3PL) services; general shipping and freight management services; warehousing and distribution. Gluck focuses on the textiles, clothing and footwear industries. They service both medium sized businesses and multi-national groups based in Australia. Gluck is based in Melbourne with operations in Sydney, Brisbane, Adelaide and Auckland.

Performance

While early days for this investment, YTD trading performance is in line with forecasts.

Outlook

Gluck's EBIT growth plan involves seeking new acquisitions, to acquire customers, develop new market verticals or develop wider national coverage, The company is currently in discussion with two potentially complementary firms.



Report on Portfolio Companies

PROFESSIONAL HEARING SERVICES LIMITED

Date of Investment	Industry	Stage	Total Initial Investment $000	Shareholding %
November 2006	Healthcare Services	Expansion	$1,310	18.7

Background

Professional Hearing Services (PHS) is a hearing aid retail business providing hearing tests and hearing aid fitting services with two primary clinics, Tauranga and Hamilton, and three visiting clinics, Matamata, Waihi and Thames, in the Waikato/Bay of Plenty regions. PHS is the market leader in these regions.

John Ryder (founder of Ryman Healthcare) and Howard Bretherton (former Managing Director of Michael Hill Jewellers and current Non Executive Director of Hallenstein Glassons) have invested alongside Direct Capital, and have been appointed Executive Chairman and Director respectively. Graeme Dodd, also an investor, has been appointed General Manager.

PHS founders Brett Robertson, John Ho and Carey Wright are all continuing in their existing senior audiologist roles and two remain shareholders in the company.

Performance

The businesses transition to new ownership has been smooth. A number of growth and profit improvement initiatives have been identified and are being advanced by the new management team including the opening of additional clinics.

Outlook

Direct Capital believes there is excellent growth potential in this business. Ageing population demographics, technology innovations and aesthetic enhancements to hearing aids are expected to continue to underpin growth in the demand for hearing aids and associated hearing aid fitting services. The existing PHS business provides an excellent regional platform from which the PHS management team hope to develop a much larger business.

Report on Portfolio Companies

BIOPACIFICVENTURES

Company	Date of Investment	Industry	Stage	Total Initial Investment $000
Vital Food Processors	Feb, Oct, Dec-06	Consumer Products	Early	$192
Cleveland Biosensors Pty	Nov 2005	Manufacturing	Early	$72
NZ Pharmaceuticals	Nov 2005	Pharmaceuticals	Pre-IPO	$515
Horizon Science Pty Ltd	Jul, Nov - 06	Food technology	Early	$334
Karios Holdings	Oct, Dec - 06	Consumer Products	Early	$256
Total BPV Investments				**$1,369**

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

There have been five investments to date and we comment on four of these (with NZP having been discussed earlier).

Vital Food Processors Limited (Vital)

Background

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

Vital was formed in 1997 by the team that developed the revolutionary functional beverage, Kiwi Crush®, winner of four major food awards.

Pohutukawa has a 4.4% investment stake in Vital.

Performance

Vital is in the early stages of product promotion internationally. The outcome of the clinical trials being funded by BPV's investment will be an important milestone for the company. A key trial will be concluded by June 2007.

Outlook

Vital has a proprietary and patented method of extracting and stabilising a protease enzyme complex from kiwi-fruit with strong evidence of effectiveness and safety in relieving symptoms of digestive dysfunction in humans and companion animals.

The investment by BPV is enabling the company to conduct clinical trials in non-ulcer dyspepsia (heartburn), constipation and IBS. The successful outcome of clinical trials will be used internationally to promote the Vital products and to support Vital's sales and marketing efforts.

Cleveland Biosensors (Cleveland)

Background

Cleveland is a Queensland-based start-up company with technology allowing sophisticated lab tests to be performed on the spot by untrained personnel. Initial products are focused on the water-processing sector.

Performance

Following the placement of a convertible loan investment in Cleveland in November 2005 there has been no follow-on investment. BPV maintains a watching brief on the company to determine when and if to convert the loan to equity.

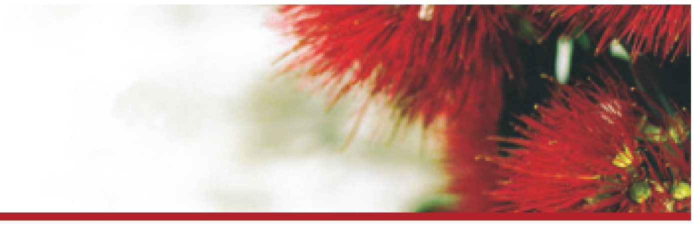
Outlook

BPV was in negotiation with Cleveland to commit to a larger investment but was unable to reach reasonable terms. Repayment of the convertible loan is due in May 2007.

Horizon Science Pty Limited (Horizon)

Background

Horizon is an emerging technology company based in Melbourne developing nutraceuticals from food by-products. Its initial focus is on sugar cane and the powerful natural chemicals that it contains which affect



Report on Portfolio Companies

the absorption and conversion of food into fat or muscle. Horizon has a strong potential lead product in low Glycaemic Index (GI) sugar.

In November 2006 BPV announced an investment of A$9 million in Horizon Science, which has developed a technique for retaining rich nutrients from parts of the sugar cane that are normally discarded during processing. The result is a totally natural sugar (with a GI rating of 51), half that of glucose (GI: 100), and almost 25% lower than that of white sugar (GI: 65). Horizon's "low GI sugar" can be used in cooking and baking like ordinary sugar, whereas artificial sweeteners require major changes to recipes.

Pohutukawa has a 2.75% investment stake in Horizon.

Performance

The December 2006 investment timing means that financial reporting will commence in the first quarter of 2007.

Outlook

Comments from Dr David Kannar, Horizon Chief Scientific Officer and Dr Andrew Kelly Executive Director BPV.

Dr David Kannar
"To be released in 2008, the low GI sugar retains higher amounts of natural sugar-cane polyphenols, which in addition to reducing GI have also shown to be responsible for reducing body fat and increasing lean muscle mass. These effects are important in type 2 diabetes, one of the fastest growing global health threats".

Dr Andrew Kelly
"This is an example of the innovative thinking that can be fast tracked into a commercial reality as a result of the combined resources of Australia and New Zealand. We are very excited to support this project, which has enormous potential for the food industry."

BPV's international network and experience in the nutraceuticals market is expected to add significant value to the Horizon business going forward. The plan is to take the product to market, worldwide.

Karios Holdings Limited (Karios)

Background

Karios was established for the sole purpose of investing in the NZAX listed Wool Equities Limited (WEL).

Investments were made in October and December 2006.

WEL is a company commercialising intellectual property arising from more than 10 years R&D at the NZ Wool Board. Its major asset is 95% ownership in Keratec, a company with a wide portfolio of naturally derived and 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.

Pohutukawa has a 6.28% investment stake in Karios.

Performance

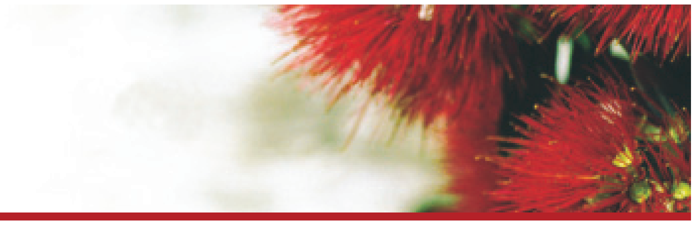
WEL has over 11,000 shareholders, the majority of whom are sheep farmers who received their shares on the disestablishment of the Wool Board in 2003. The shares are rarely traded and the previous largest shareholder, Landcorp, held only 2%.

Subsequent to Karios making its investment in WEL, BPV met with representatives of the Board to discuss Karios, as the largest WEL shareholder, having representation on the WEL Board. As a result Bill Kermode and Aki von Roy were appointed to the Board as BPV representatives, together with a new independent director, Keith Sutton. The new appointments were effective from 12 January 2007.

During the past quarter there has been significant media coverage of WEL as a result of accusations made by a group of farmer shareholders in WEL regarding, among other things, allegations of possible insider trading by Chairman Richard Bentley and recently ex-CEO Mark O'Grady. These investigations were concluded with no action being taken. This shareholder group has had a long running dispute with WEL as a result of them disagreeing with the strategic direction of WEL (BPV is supportive of the current direction). This dispute is unrelated to BPV's investment in WEL, but Karios' investment has been caught up in the media coverage.

Outlook

Karios' key focus in the business going forward is on undertaking, shaping and supporting the business plan for Keratec.



Directors' Report

For the year ended 31 December 2006

The Directors of Pohutukawa Private Equity Limited have pleasure in submitting their annual report for the year ending 31 December 2006.

Directors holding office during the year 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	35,000	27 August 2004
M W Davies	35,000	27 August 2004
N J Craig	15,000	16 August 2004
W T Stevens	15,000	27 August 2004

Entries recorded in the interests register

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

Directors' shareholdings and dealings in Pohutukawa & Pohutukawa co-investments as at 31 December 2006.

The directors of Pohutukawa also have co-investment rights in the investments that are undertaken by Pohutukawa. Holdings (including relevant interests) are as follows:

	Investments in (*)					
	Pohutukawa	Max Fashions	Express Logistics	NZ Pharmaceuticals	International Forwarding	PHS Holdings
J A Cimino	25,000	41,000	24,000	23,405	9,926	-
M W Davies	100,000	41,000	24,000	46,810	9,926	14,715
N J Craig	184,208	21,890	12,374	14,534	-	-
W T Stevens	100,000	3,890	3,362	5,243	-	-

(*) number of shares held

Director

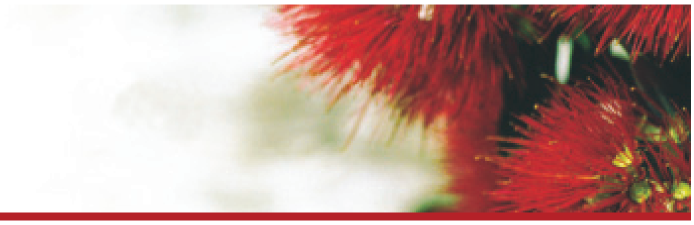
29th March 2007

Date

Director

29th March 2007

Date



Income statement

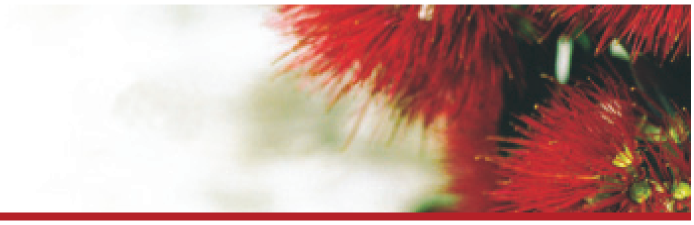
For the year ended 31 December 2006

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Interest Income		716,697	1,240,488	716,697	1,240,488
Change in fair value of investments	6	4,306,809	-	-	-
Other operating income	2	335,029	277,231	335,029	277,231
Administrative expenses		(1,609,958)	(1,551,672)	(1,609,958)	(1,551,672)
Other operating expenses			-		-
Operating profit/(loss)		3,748,577	(33,953)	(558,232)	(33,953)
Profit/(loss) before tax		3,748,577	(33,953)	(558,232)	(33,953)
Income tax expense	4	-	-	-	-
Profit/(loss) for the period		3,748,577	(33,953)	(558,232)	(33,953)
Attributable to:					
Equity holders of the parent		(558,232)	(33,953)	(558,232)	(33,953)
Minority Interest	1c	4,306,809	-	-	-
Profit/(loss) for the period attributable to the equity holders of stapled securities		3,748,577	(33,953)	(558,232)	(33,953)

Statement of recognised income and expense

For the year ended 31 December 2006

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Profit/(loss) for the period		3,748,577	(33,953)	(558,232)	(33,953)
Total recognised income and expense for the period		3,748,577	(33,953)	(558,232)	(33,953)
Attributable to:					
Equity holders of the parent		(558,232)	(33,953)	(558,232)	(33,953)
Minority interest	1 c	4,306,809	-	-	-
Total recognised income and expense for the period		3,748,577	(33,953)	(558,232)	(33,953)



Balance sheet

As at 31 December 2006

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Assets					
Loans to related parties	14	-	-	13,441,075	10,475,681
Investments	6	17,747,884	10,475,681	-	-
Total non-current assets		17,747,884	10,475,681	13,441,075	10,475,681
Investments	6	6,840,000	10,000,000	6,840,000	10,000,000
Trade and other receivables		39,145	341,794	39,145	341,794
Cash and cash equivalents	8	53,347	116,559	53,347	116,559
Total current assets		6,932,492	10,458,353	6,932,492	10,458,353
Total assets		24,680,376	20,934,034	20,373,567	20,934,034
Equity					
Issued capital	9	20,950,000	20,950,000	20,950,000	20,950,000
Retained surplus/(deficit)	9	(628,161)	(69,929)	(628,161)	(69,929)
Total equity attributable to equity holders of the parent		20,321,839	20,880,071	20,321,839	20,880,071
Minority interest	9	4,306,809	-	-	-
Total equity attributable to equity holders of stapled securities	9	24,628,648	20,880,071	20,321,839	20,880,071
Liabilities					
Trade and other payables	10	51,728	53,963	51,728	53,963
Total current liabilities		51,728	53,963	51,728	53,963
Total liabilities		51,728	53,963	51,728	53,963
Total equity and liabilities		24,680,376	20,934,034	20,373,567	20,934,034

For and on behalf of the Board

Director

Director

29th March 2007

Date

29th March 2007

Date

Statement of cashflows

For the year ended 31 December 2006

	Note	Consolidated		Parent	
		2006	2005	2006	2005
Cash flows from operating activities					
Cash receipts from fees		335,029	279,281	335,029	279,281
Interest received		775,609	1,360,882	775,609	1,360,882
Cash paid to suppliers		(1,362,418)	(2,055,865)	(1,362,418)	(2,055,865)
Income taxes received		-	3,621	-	3,621
Net cash from operating activities	*11*	(251,780)	(412,081)	(251,780)	(412,081)
Cash flows from investing activities					
Proceeds from sale of investments		3,160,000	10,000,000	3,160,000	10,000,000
Loans advanced to related parties		-	-	(2,971,432)	(10,475,681)
Acquisition of investments		(2,971,432)	(10,475,681)	-	-
Net cash from investing activities		188,568	(475,681)	188,568	(475,681)
Cash flows from financing activities					
Net cash from financing activities		-	-	-	-
Net movement in cash and cash equivalents		(63,212)	(887,762)	(63,212)	(887,762)
Cash and cash equivalents at 1 January		116,559	1,004,321	116,559	1,004,321
Cash and cash equivalents at 31 December	*8*	53,347	116,559	53,347	116,559

Notes to the consolidated financial statements

1. Significant accounting policies

Pohutukawa Private Equity Limited (the "Company") is a company domiciled in New Zealand. The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and 25 Investment Companies (together referred to as the "Group").

The financial statements were approved by the Directors on 29 March 2007.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZGAAP), applying the New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

Pohutukawa Private Equity 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 IFRSs 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.

Judgements made by management in the application of NZ IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 16. 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.

(c) Basis of consolidation

(i) Stapled securities

For every 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 25 Investment Companies. All of these shares are stapled securities. This stapling arrangement creates a business combination by contract alone without any individual entity obtaining an ownership interest. The Group has designated Pohutukawa Private Equity Limited as the acquirer and the parent entity for the purpose of preparing consolidated financial statements. The 25 Investment Companies combining under the stapling arrangement are designated as acquirees.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are carried at fair value in both the parent and consolidated financial statements.

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 annual valuations carried out in accordance with the valuation principles set out by Australian Venture Capital Association Limited (AVCAL).

(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) Minority interest

Minority interest refers to the equity of the Investment Companies as this is owned directly by shareholders of the

Notes to the consolidated financial statements

parent and not by the parent company itself. These minority interests are attributable to the parent company shareholders as a result of their direct investment in the preference shares of the Investment Companies.

(d) 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 annual valuations carried out in accordance with the valuation principles set out by Australian Venture Capital Association Limited (AVCAL).

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.

(e) Trade and other receivables

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

(f) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash excludes short-term deposits that are not used as part of the Group's day-to-day cash management.

(g) Impairment

The carrying amounts of the Group's assets, other than investments in equity securities (see accounting policy d), and deferred tax assets (see accounting policy n), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy g(i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of the Group's receivables and short term deposits carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

(ii) Reversals of impairment

An impairment loss in respect of a receivable or short term deposit carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) 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.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as interest expense.

(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

Notes to the consolidated financial statements

change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

(iii) Dividends

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

(i) Interest-bearing borrowings

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

(j) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Trade and other payables

Trade and other payables are stated cost.

(l) Revenue

(i) Services rendered

Revenue from services rendered is recognised in the income statement as earned.

(ii) Equity investments

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

(iii) Interest income

Interest income is recognised as revenue in the income statement as it accrues, using the effective interest method.

(m) Expenses

(i) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method. Interest and dividend income are recognised as revenue and not in financing due to the nature of the Group's operations.

(n) Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, 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 balance sheet 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Company and group currently operate in one business segment, being an investment group, and in one geographical segment, New Zealand. Therefore no disaggregated segment reporting is presented.

Notes to the consolidated financial statements

(p) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is an equity investment acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

Notes to the consolidated financial statements

2. Other operating income

		Consolidated		Parent	
	Note	2006	2005	2006	2005
Investment placement fees		184,238	240,131	184,238	240,131
Other operating income		150,791	37,100	150,791	37,100
		335,029	277,231	335,029	277,231

3. Audit fees

Audit of the financial statements	18,065	15,000	18,065	15,000
Audit related services	-	5,678	-	5,678
Tax compliance services	22,066	21,991	22,066	21,991
	40,131	42,669	40,131	42,669

4. Income tax expense

Recognised in the income statement

Income tax expense in income statement	-	-	-	-

Reconciliation of effective tax rate

	Consolidated		Parent	
	2006	2006	2005	2005
Consolidated				
Profit / (loss) before tax		3,748,577		(33,953)
Income tax benefit at 33% tax rate	(33.0%)	1,237,030	33.0%	(11,204)
Non-deductible expenses		-		-
Tax exempt income	37.9%	(1,421,247)		
Tax losses not recognised in the income statement	(4.9%)	184,217	(33.0%)	11,204
Total income tax expense in income statement	(0.0%)	-	(0.0%)	-
Parent				
Loss before tax		(558,232)		(33,953)
Income tax benefit at 33% tax rate	33.0%	(184,217)	33.0%	(11,204)
Non-deductible expenses		-		-
Tax losses not recognised in the income statement	(33.0%)	184,217	(33.0%)	11,204
Total income tax expense in income statement	(0.0%)	-	(0.0%)	-

Notes to the consolidated financial statements

5. Imputation credits

	Parent	
	2006	2005
Balance at beginning of period	-	3,621
Income tax paid	-	-
Income tax refunded	-	(3,621)
Balance at end of period	-	-

	Consolidated	
	2006	2005
Imputation credits available to shareholders of the parent company:		
Through the parent company	-	-
Through subsidiaries	-	-

6. Investments

		Consolidated		Parent	
Non-current investments	*Note*	2006	2005	2006	2005
Equity securities carried at fair value		17,747,884	10,475,681	-	-
		17,747,884	10,475,681	-	-
Current investments					
Short term deposits		6,840,000	10,000,000	6,840,000	10,000,000

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.

A movement in the earnings multiples applied to the investments carried at fair value of 0.2 changes the value of the investments by $1,044,389. A movement in the marketability discount of 5% changes the value of the investments by $997,328.

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%	2,125,000
NZPH Investments Limited	Pharmaceutical manufacturer	Nov 2005	15.8%	4,142,685
BiopacificVentures	Private equity vehicle	Nov 2005	11.0%	1,372,274
International Forwarding Limited	Logistics	Oct 2006	22.4%	873,502
PHS Holdings Limited	Hearing aid retailer	Nov 2006	18.7%	1,309,614
				13,441,075

As investments in equity securities are carried at fair value in the Parent and Group, the results and net assets of the acquirees are not recognised in these financial statements.

Notes to the consolidated financial statements

7. Deferred tax assets and liabilities

Unrecognised deferred tax assets

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

		Consolidated		Parent	
	Note	2006	2005	2006	2005
Tax losses	*4*	201,188	16,971	201,188	16,971
		201,188	16,971	201,188	16,971

Tax losses can be carried forward subject to shareholder continuity. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefit.

8. Cash and cash equivalents

		Consolidated		Parent	
	Note	2006	2005	2006	2005
Call deposits		53,347	116,559	53,347	116,559
Cash and cash equivalents in the statement of cash flows		53,347	116,559	53,347	116,559

9. Capital and reserves

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

Consolidated

	Share capital	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2006	20,950,000	(69,929)	20,880,071	-	20,880,071
Total recognised income and expense	-	(558,232)	(558,232)	4,306,809	3,748,577
Balance at 31 December 2006	20,950,000	(628,161)	20,321,839	4,306,809	24,628,648
Balance at 1 January 2005	20,950,000	(35,976)	20,914,024	-	20,914,024
Total recognised income and expense	-	(33,953)	(33,953)	-	(33,953)
Balance at 31 December 2005	20,950,000	(69,929)	20,880,071	-	20,880,071

Parent

	Share capital	Retained earnings	Total Equity
Balance at 1 January 2006	20,950,000	(69,929)	20,880,071
Total recognised income and expense	-	(558,232)	(558,232)
Balance at 31 December 2006	20,950,000	(628,161)	20,321,839
Balance at 1 January 2005	20,950,000	(35,976)	20,914,024
Total recognised income and expense	-	(33,953)	(33,953)
Balance at 31 December 2005	20,950,000	(69,929)	20,880,071

Notes to the consolidated financial statements

9. Capital and reserves (continued)

Share capital

Consolidated

	Investment Co's Preference shares		PPE Ordinary shares		PPE Preference shares	
In millions of shares	2006	2005	2006	2005	2006	2005
On issue at 1 January	1,325	1,325	53	53	5,300	5,300
Issued during year	-	-	-	-	-	-
On issue at 31 December	1,325	1,325	53	53	5,300	5,300

Parent

	Ordinary shares		Preference shares	
In millions of shares	2006	2005	2006	2005
On issue at 1 January	53	53	5,300	5,300
Issued for cash	-	-	-	-
On issue at 31 December	53	53	5,300	5,300

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

At 31 December 2006, the authorised share capital of the Company comprised 53,000,000 ordinary shares (2005: 53,000,000), and 5,300,000,000 preference shares (2005: 5,300,000,000). In addition, there are 1,325,000,000 preference shares in the 25 Investment Companies (53,000,000 in each). No class of share has a par value. Ordinary shares and Investment Company preference shares have been allotted at nil value. The Pohutukawa Private Equity preference shares have been allotted at $0.01 per share, of which $0.004 has been called and paid. The remaining $0.006 per share ($31,800,000) 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.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets. Holders of the Company preference shares do not have an entitlement to vote, and are not entitled to participate in distribution of income, but shall be entitled to $0.01 per preference share upon redemption by the Company. Preference shareholders in the Investment Companies do not have an entitlement to vote, but are entitled to receive distributions of capital and/or income as prescribed in the Investment Companies' constitutions.

10. Trade and other payables

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Trade payables due to related parties		24,559	652	24,559	652
Other trade payables		-	33,311	-	33,311
Non-trade payables and accrued expenses		27,169	20,000	27,169	20,000
		51,728	53,963	51,728	53,963

Notes to the consolidated financial statements

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

		Consolidated		Parent	
	Note	2006	2005	2006	2005
Profit / (loss) for the period		3,748,577	(33,953)	(558,232)	(33,953)
Movement in trade and other receivables		302,649	(526)	302,649	(526)
Movement in income tax receivable		-	3,621	-	3,621
Movement in trade payables and accruals		(2,235)	(381,223)	(2,235)	(381,223)
Change in fair value of investments		(4,306,809)	-	-	-
Loans to related parties receivable		6,038	-	6,038	-
Net cash flow from operating activities		(251,780)	(412,081)	(251,780)	(412,081)

12. Financial instruments

Credit risk

Exposure to credit risk arises in the normal course of the Group's business. The Group is exposed to credit risk on its investments, receivables and bank balances. The Group does not require collateral in respect of financial assets. The Group has policies in place to mitigate credit risk, particularly in its investments. This includes detailed analysis of prospective equity investments.

At the balance sheet date there were significant concentrations of credit risk. Investments in unlisted equity securities are, by their nature, less liquid and subject to greater credit risk than listed securities. The Group also invests its surplus funds in short term deposits at one financial institution, ABN AMRO Craigs Cash Management Trust Limited. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business. The Group earns interest on bank accounts and short term deposits. Management invest excess funds in short term deposits to maximise interest revenue whilst ensuring funds are available if required.

Effective interest rates and repricing

The only interest bearing financial assets and liabilities in the Group are bank balances and short term deposits. At balance sheet date the effective interest rates for bank balances is 6.5% (2005: 6.7%) and short term deposits is 7.6% (2005: 7.4%).

Bank balances reprice daily and short term deposits reprice within 6 months.

Fair values

The carrying amounts shown in the balance sheet are, or closely approximate, their fair values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Unlisted equity securities

In the year of acquisition, fair value is determined by Directors' valuation. For each subsequent annual reporting date, fair value is determined by reference to a valuation carried out in accordance with the valuation principles set out by Australian Venture Capital Association Limited (AVCAL). The key assumptions and range of reasonable fair values is disclosed in Note 6.

Notes to the consolidated financial statements

13. Capital commitments and contingencies

During the year ended 31 December 2004, the Group entered into a commitment to invest $5,300,000 in BiopacificVentures Limited (BPV). These funds are called by BPV as required and as at 31 December 2006 $3,927,726 (2005: $4,710,004) remained uncalled.

The Group has also guaranteed loan obligations on two of its investments. The amount guaranteed on behalf of Max Retail Holdings Limited is $1,849,500 at 31 December 2006 (2005: $1,849,500), and $895,000 on behalf of Express Logistics Group Limited at 31 December 2006 (2005: $895,000). The guarantees, if called upon, may be compensated by the issue of additional equity or debt instruments of the borrower.

14. Related parties

Identity of related parties

The Group has a related party relationship with its Investment Companies (see note 15). Certain directors of the Company are also directors of ABN AMRO Craigs Limited. Certain directors of the Investment Companies are also directors of Direct Capital Private Equity Limited and Direct Capital Management Limited. ABN AMRO Craigs Limited and Direct Capital Private Equity Limited own 50% each of Pohutukawa Management Limited, the Manager of Pohutukawa Private Equity Limited.

Transactions with related parties

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

- Management fees paid to Pohutukawa Management Limited totalled $1,192,500 (2005: $1,192,500).
- ABN AMRO Craigs Limited paid certain expenses of Pohutukawa Private Equity Limited. As at 31 December 2006, $24,559 remained owing to ABN AMRO Craigs Limited (2005: $652).
- Legal and accounting expenses incurred by Direct Capital Management Limited of $28,377 (2005: $30,620) were reimbursed by Pohutukawa Private Equity Limited.
- Loans to Investment Companies totalled $2,965,394 (2005: $10,475,681). Total loans outstanding as at 31 December 2006 were $13,441,075 (2005: $10,475,681). All loans are non-interest bearing and are repayable on demand.

Transactions with key management personnel

		Consolidated		Parent	
	Note	**2006**	**2005**	**2006**	**2005**
Directors fees (total remuneration)		100,000	100,000	100,000	100,000

Notes to the consolidated financial statements

15. Group entities

Investment Companies

	Country of incorporation	Ownership interest	
		2006	2005
Pohutukawa Alpha Investments Limited ("Alpha")	New Zealand	0%	0%
Pohutukawa Beta Investments Limited ("Beta")	New Zealand	0%	0%
Pohutukawa Gamma Investments Limited ("Gamma")	New Zealand	0%	0%
Pohutukawa Delta Investments Limited ("Delta")	New Zealand	0%	0%
Pohutukawa Epsilon Investments Limited ("Epsilon")	New Zealand	0%	0%
Pohutukawa Zeta Investments Limited ("Zeta")	New Zealand	0%	0%
Pohutukawa Eta Investments Limited ("Eta")	New Zealand	0%	0%
Pohutukawa Theta Investments Limited ("Theta")	New Zealand	0%	0%
Pohutukawa Iota Investments Limited ("Iota")	New Zealand	0%	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%
Pohutukawa Pi Investments Limited ("Pi")	New Zealand	0%	0%
Pohutukawa Rho Investments Limited ("Rho")	New Zealand	0%	0%
Pohutukawa Sigma Investments Limited ("Sigma")	New Zealand	0%	0%
Pohutukawa Tau Investments Limited ("Tau")	New Zealand	0%	0%
Pohutukawa Upsilon Investments Limited ("Upsilon")	New Zealand	0%	0%
Pohutukawa Phi Investments Limited ("Phi")	New Zealand	0%	0%
Pohutukawa Chi Investments Limited ("Chi")	New Zealand	0%	0%
Pohutukawa Psi Investments Limited ("Psi")	New Zealand	0%	0%
Pohutukawa Omega Investments Limited ("Omega")	New Zealand	0%	0%
Pohutukawa Alpha-Pi Investments Limited ("Alpha-Pi")	New Zealand	0%	0%

As stated in note 1(c)(i), The 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.

16. Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Note 12 contains information about the assumptions and their key risks factors relating to determining the fair value of investments in unlisted equity securities.

Audit report

KPMG

To the shareholders of Pohutukawa Private Equity Limited

We have audited the financial statements on pages 14 to 28. The financial statements provide information about the past financial performance of the company and group and its financial position as at 31 December 2006. This information is stated in accordance with the accounting policies set out on pages 17 to 20.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 31 December 2006 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company'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 and general accounting 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 company as far as appears from our examination of those records;
- the financial statements on pages 14 to 28:
  - comply with New Zealand generally accepted accounting practice;
  - comply with International Financial Reporting Standards;
  - give a true and fair view of the financial position of the company and group as at 31 December 2006 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 29 March 2006 and our unqualified opinion is expressed as at that date.

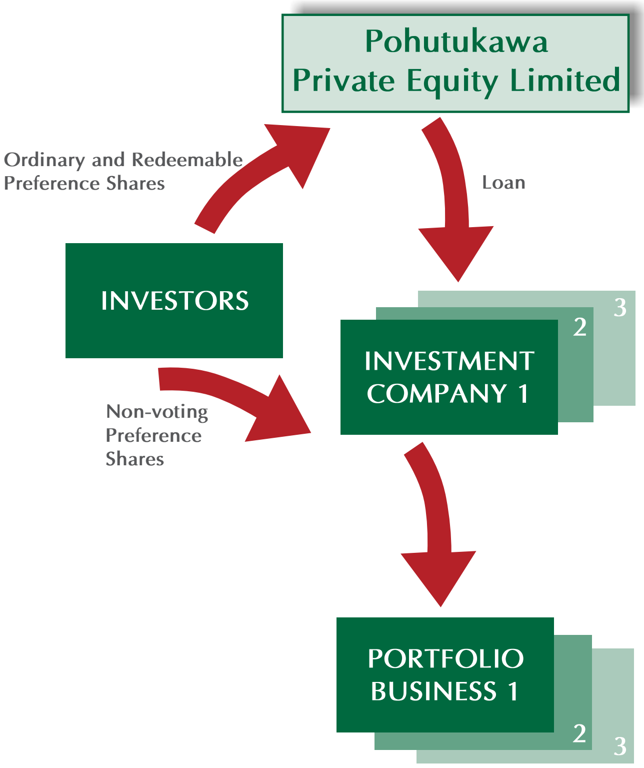
KPMG

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 25 special purpose vehicles (investment companies), which invest in the portfolio companies.

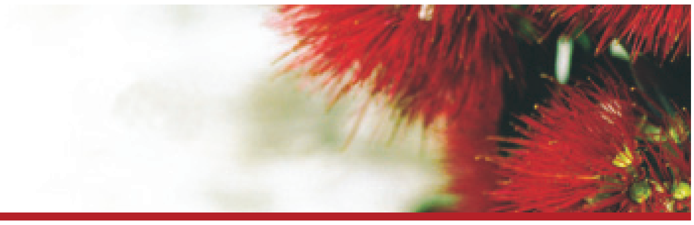
The Pohutukawa structure is:



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 holds all the ordinary voting shares in each of the Investment Companies and exercises these rights in accordance with the Pohutukawa investment policy and the investment criteria.

Pohutukawa has a separate Board to ensure best-practice corporate governance and to ensure that the shareholders' interests are held paramount. For so long as it holds at least 50% of the issued shares in the Manager, ABN AMRO Craigs is entitled to appoint up to 50% of the directors of Pohutukawa Private Equity. All other directors of Pohutukawa can be appointed or removed by ordinary resolution of the investors. The Board sets the investment policy and criteria, and reviews the performance of the Manager from time to time and reports to the shareholders on the content of this review. It reviews the capital adequacy of Pohutukawa and is responsible for continuous disclosure and timely shareholder meetings of Pohutukawa. The Directors of each Investment Company can be appointed or removed only by the Manager (being the holder of the ordinary shares in the Investment Company).

The Manager is a 50/50 joint venture between Direct Capital and ABN AMRO Craigs, both of whom provide services to the Manager on a contract basis. Direct Capital provides investment management services. ABN AMRO Craigs provides fundraising, cash management, administration, investor communication, and investment sourcing and disinvestment assistance. The Investment Committee of the Manager is responsible for all investment decisions, subject to compliance with the investment policy set by the Board



The Pohutukawa Board

The Board of Pohutukawa Private Equity Limited comprises four directors, two from ABN AMRO Craigs and two independents, one of whom is Chairman. The Board is responsible for appointing, and then monitoring the performance of the Manager, reviewing Pohutukawa's investment policy and criteria, and managing conflicts of interest between the Manager and Pohutukawa.

JONATHAN ANDREW CIMINO

(Chairman) BCA

Jon's career has been in the sharebroking and investment banking sectors. He is a director of his own investment banking operation Cimino Partners Ltd. Previously he was Chairman and Managing Director of UBS Warburg NZ. He is Chairman of Ezibuy and a former director of Waste Management, Genesis Research, TranzRail and the NZSE. Jon is a graduate of Victoria University of Wellington and has completed the Advanced Management Program at Harvard Business School."

MURRAY WALLACE DAVIES

(Independent Director)

Murray comes from an engineering background and is an experienced investor with a wide range of private business interests with which he is actively involved. He is currently the Chairman of Radius Health Group Limited, Lexicon Group Limited and Summit Capital Investments. He is a director of Goatley Technology Limited and numerous other private companies. He is also Chairman of PriorityOne, which is responsible for Regional Development in the Tauranga region. Until recently Murray was the National President of Export New Zealand. Murray has travelled extensively on business and has a strong international, exporting and strategic focus with very good business disciplines. His spread of business interests gives him a very broad business network. Murray has lived in Tauranga since 1978. However, with many business interests in Auckland he spends a great deal of his time there.

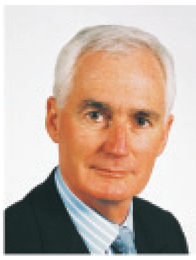
NEIL JOHN CRAIG

(Non-Executive Director) BAgCom

Neil is the Executive Chairman of ABN AMRO Craigs, a company he has been instrumental in building from a small regionally based sharebroking business in Whakatane to its current position as a leading New Zealand investment advisory firm. Neil also heads ABN AMRO Craigs Investment Banking team and, in a personal capacity, has been an active private equity investor for many years. Neil is currently Chairman of NZX listed Comvita Limited and a director of a number of privately held companies and he has previously been a Director of Mighty River Power Limited, New Zealand Stock Exchange and Trust Bank Bay of Plenty Limited. As Head of Investment Banking for ABN AMRO Craigs, Neil has had a broad experience in listings and/or capital raisings for a wide range of small and large sized companies.

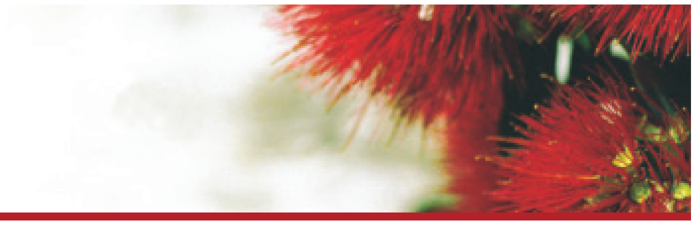
WILLIAM TURNBULL STEVENS

(Non-Executive Director) BBS



William is a director of ABN AMRO Craigs where he also works as a senior investment advisor.

He is also currently Deputy Chairman of the discipline committee of NZX, NZX Discipline. William was a Lieutenant Commander in the Royal New Zealand Navy, and has subsequently been in investment advisory work since 1986. He joined Hendry Hay McIntosh in 1986 and was a director of that firm for 5 years until 1996 when it was acquired by Merrill Lynch. He was also a director of Merrill Lynch (New Zealand) for 5 years until ABN AMRO Craigs acquired part of that firm in 2001.

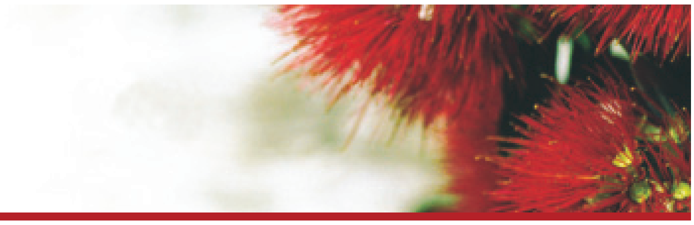


Committees

The Board has one committee, an Audit Committee, comprising Mr Jon Cimino (Chairman of Pohutukawa) and Mr Murray Davies (Independent Director of Pohutukawa). 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's fees.

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



Directory

BOARD OF DIRECTORS OF POHUTUKAWA PRIVATE EQUITY

Jon Cimino
Neil Craig
Murray Davies
William Stevens

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

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