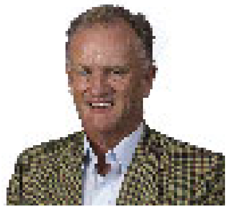
DIRECT CAPITAL

DIRECTIONS

NEWSLETTER OF DIRECT CAPITAL PRIVATE EQUITY LIMITED **MARCH 2006**



WHAT GOES AROUND, COMES AROUND
JOHN RYDER CHAIRS DIRECT CAPITAL

As a staunch supporter of good corporate governance there is a good deal of irony that private equity and venture capital investor Direct Capital has appointed Christchurch businessman John Ryder as Chairman.

Eminently qualified for the appointment, John was a co-founder of NZX top 50 listed company Ryman Healthcare. Moreover he has developed successful businesses in retail, manufacturing, communications, tourism, education, household products and the retirement village industry.

John was a partner in a Christchurch firm of accountants for 12 years, was joint managing director of Ryman for 16 years, and was also a founding director of Michael Hill International. He was also a founder and is still Chairman of Health Education Trust – the dominant education provider for healthcare workers in the NZ aged care sector. So it's not his qualifications that make his new appointment laced with irony.

Direct Capital began with a single private equity fund of $51 million in 1994 and today manages more than $350 million in four funds. In addition to governance at board level of the privately-owned Direct Capital, John is to oversee the continued growth of the business. Direct Capital can clearly benefit from John's expertise.

The irony dates back to 1997 when John and his co-founder Kevin Hickman negotiated a 25% equity involvement for Direct Capital in Ryman – when it was in a rapid growth phase as a private company. Bill Kermode of Direct Capital joined the Ryman board at the time. John says Direct Capital's involvement was "a cornerstone contribution to the successful listing of Ryman on the New Zealand stock exchange."

Today Direct Capital managing director Ross George says "The fact that John has invested in and operated private companies successfully, together with his investment analysis skills makes him an ideal chairman for the business. We have worked with him since 1997 and have huge respect for what John has done in both operational and investment environments. He has all the skills required to complement our management team and the fact he has successfully been-there and done-that adds significant credibility to Direct Capital."

Hopefully, what goes around – comes around and we all look forward to John's involvement in Direct Capital.

MANAGING SUCCESSION
SUCCESSFULLY

Like "death and taxes" managing succession is a challenge that every successful owner-manager has to face. It cannot be cheated.

Often succession is seen as "important but not urgent" and conveniently put on the back burner until the next year. The problem is that as every year goes by, deferring the issue becomes more difficult. One day, events out of your control take over and you find yourself the passenger rather than the driver on a journey you are ill-prepared for and know little about.

Management succession is a challenge both emotionally and financially and requires planning if it is to be achieved successfully, for both those managing today and those taking up the reins.

Over the past decade Direct Capital has come to understand the issues in dealing with succession management. As a leading provider of private equity to owner-managed businesses Direct Capital is in an ideal position to assist both the company and the company owners through the entire succession process.

Every business is different, as are the people that work within them, but there are typically two central themes to address:

- Ownership succession
- Management succession

Direct Capital assists with both, often over a period of years. We are able to cope with an immediate or gradual realisation of value for the existing owners, the development of existing management or the introduction of new management. In addition, the special needs of each business can be accommodated – company name retention, empowerment of second tier management, and even the car parking space.

Today management succession or succession buy-outs are a core focus of Direct Capital. Max Fashions and Express Logistics are two very good examples of what can be done, which you can read more about on p4 and p5 of this Directions.

INSIDE

GOOD THINGS COME TO THOSE WHO WAIT
NEW ZEALAND PHARMACEUTICALS

There is debate at Direct Capital about whether we have known the team at New Zealand Pharmaceuticals (NZP) for 5 years or 6. There is no debate however, that in November 2005, Direct Capital acquired a 51% stake in NZP, with the remaining 49% continuing to be owned by the management and staff of NZP, and strategic investor Shin Nippon Yakugyo, a Japanese specialty chemicals business.

In doing so, NZP management has achieved three important milestones. First, it has realised a substantial proportion of the value they held in NZP. Second, it has raised the capital needed for ongoing development of the business. Third, by introducing institutional investors, it has completed an important pre-cursor to the company's planned public listing, which they are targeting within the next three years.

Direct Capital's investment has been completed from its DCPIII and Pohutukawa Private Equity funds and from BioPacificVentures (BPV), allowing Direct Capital to combine its traditional private equity strength with BPV's specialist industry expertise.

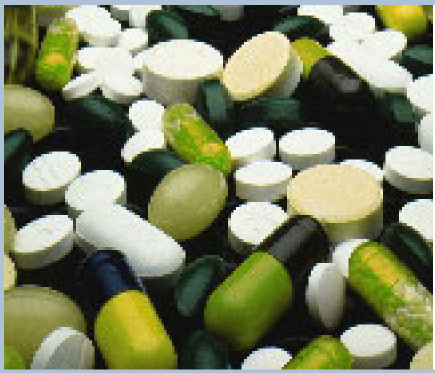
NZP produces specialty chemicals for some of the world's leading pharmaceutical and biotechnology companies. Almost all of NZP's revenues are achieved from export markets.

The company's main product, cholic acid, is manufactured from bovine bile and is an intermediate for a drug used to treat liver related diseases. NZP is a leading player in this specialised field. Other animal-based products include taurine, an amino acid used in infant formula, heparin, a blood anticoagulant, and ferritin, a natural iron supplement.

One of NZP's more recent product initiatives is 'ManNAc', 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's role in this area has developed from its relationship with Industrial Research Ltd, which is developing a range of these specialty carbohydrates.

Financing from Direct Capital's acquisition includes the capital expenditure funding required by NZP to build a new factory to manufacture these glycotherapeutic intermediates. Construction is scheduled for 2006 on the site of the existing head office and manufacturing plant in Linton near Palmerston North.

Tony Batterton and Howard Moore representing Direct Capital will join management representatives on the NZP Board alongside a new Independent Chairman, Graeme Milne. Graeme is a professional company director, with current directorships including Satara, FMG and Horizon Energy. Graeme was also recently appointed interim CEO of Livestock Improvement Corporation and will bring a wealth of experience to the Board as yet another part of the process of preparing NZP for a public listing in the future.



CLEVELAND BIOSENSORS ATTRACTS AUSTRALASIAN INVESTOR
CAPITAL WILL HELP DEVELOP RAPID DIAGNOSTICS FOR FOOD AND WATER SAFETY

In November 2005, BioPacificVentures made an investment into Australian company Cleveland Biosensors.

Cleveland has developed world-leading technology to enable high-tech lab tests to be performed rapidly and on-the-spot.

The technology cuts days of turnaround time down to 15 minutes. For users in time critical situations, like water treatment plants, this can mean thousands of dollars in savings by being able to process the testing of water more efficiently and accurately. On-the-spot results also mean safer drinking water.

The company's hand-held, BioFiniti™ testing device will be a vital tool for the water industry, food processors and other industrial applications where on-the-spot test results are critical. The tests being offered include toxins, residues and pathogens, where results currently take days to obtain after sending samples off to a lab.

Chairman of Cleveland, Mel Bridges said: "The investment was just the infusion the company needed. We have ambitions to develop the technology for a raft of valuable applications, including medical markets. We have the intellectual property; we have the talent; and now we have the capital to back it.

"BioPacificVentures will contribute to our growth in many ways - not just through capital but also its connections with global market places in the food, beverage and biotech world. As well as a long courtship with the Auckland team, we have also been welcomed in Switzerland by their global fund-manager partner, inventages."

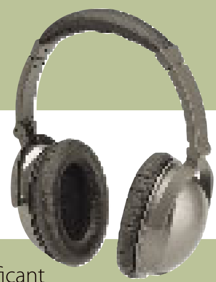
The investment is the first part only of a larger and longer term investment that BioPacificVentures hopes to make. The investment team, who knows this space, believe Cleveland's technologies are truly world-class.

SECTION 02

TMT VENTURES

PHITEK SECURES CATALYST FOR EXPANSION

TMT VENTURES PROVIDES PHITEK WITH $6 MILLION CAPITAL FOR GLOBAL GROWTH



In November 2005 New Zealand-based global leader in advanced audio technology solutions Phitek Systems Limited announced that it had successfully completed a $6 million capital raising, $5m through TMT Ventures and the balance as a follow-on investment by Stephen Tindall's shareholding company, K One W One.

Phitek is involved in the development of technology for noise cancellation and audio enhancement. The company has initially focused on the aviation industry. For those of you who travel regularly on first or business class there is a good chance you have had the opportunity to use Phitek technology. Phitek's SmartJackTM product is now in more than 20,000 seats on the world's leading airlines.

With the growth of MP3 players, i-Pods and 3G "entertainment" phone devices the market for Phitek products continues to grow significantly. The new capital will be applied to Phitek's rapid expansion into global markets as well as new product development.

Today Phitek provides technology and components to a number of global brands and is to be found in an increasing range of consumer electronics such as ANR (Active Noise Rejection) headphones, portable speakers and FM Transmitters (for the use of MP3 players in cars – for those of you who need an explanation). In recent months Phitek has opened new sales offices in Taiwan and Japan, and also successfully launched at two world electronic trade fairs a premium range of ANR headphones which have already received interest from major consumer electronics companies.

Phitek is led by founder and CEO, Mark Donaldson, who established the company in 2000 when it was part of a larger group and then led the management buy-out in 2003, when the parent company chose to focus on its core activities. There are currently 65 in the team.

TMT Ventures had followed Phitek for some time prior to investing. In that time Mark and his team demonstrated they had truly world-class technologies, and a well thought-out plan for entering a very significant international market in consumer electronics.

Mark noted, "Phitek is poised to take advantage of major market opportunities it has created over the last few years. The additional $6 million provides the catalyst for Phitek to accelerate its competitive advantage as a technology leader in advanced audio and consumer electronics solutions".

TMT Ventures shares Mark's enthusiasm and we're very excited about the customers Phitek is engaged with as well as the opportunities that lie ahead.

Phitek is the 14th investment made by TMT since it was established in 2000.

PHITEK

TMT VENTURES MOVES INTO ITS SECOND STAGE

In January 2006 TMT Ventures completed the new investment phase of its life cycle and moved into its second phase. TMT has made 14 investments to date.

TMT Ventures is a joint venture with global venture capitalist, Advent International and Telecom NZ and was the first fund to be backed by the NZ Venture Investment Fund.

Today the focus of TMT Ventures is on the sub sectors identified in the table at right, plus supporting the continued growth and ultimately the liquidity of its existing portfolio. To this end two companies in the portfolio are already listed, one in Australia and the other in New Zealand.

Of particular interest is the identification of possible partners, whether it be sales promotion, joint ventures, possible merger partners or other combined initiatives. If you know of an opportunity then let us know.

COMPANY	SECTOR
RIO	Photonics / Telecoms
Esphion	Security - Network
EMS	Security - Application User Provisioning
Travel.com.au*	Online Travel
Dilithium Networks	Multimedia Gateways
Integration Management	Telecom Billing
Argent Networks	Telecom Billing
GFG Group	Payment Solutions - Card Management
GeoSmart	Digital Mapping
Software of Excellence*	Dental Software
Momentum Energy	Energy Provider
Anzode	Battery Technology
MediaLab	ICT Research Centre
Phitek	Audio Technology

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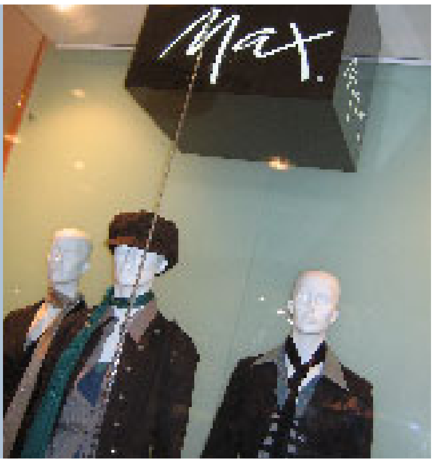
SECTION 03

DIRECT CAPITAL PARTNERS

DIRECT CAPITAL PARTNERS

RETAIL THERAPY MAX FASHIONS



MAX FASHIONS RETAIL OUTLET, AUCKLAND

David Wright, owner and managing director of Max Fashions had a problem – he had built a very successful business. The challenge was how to manage the future development of Max and, as its owner, his own personal needs as well as those of his management team.

Max is one of New Zealand's pre-eminent women's apparel labels, appealing predominantly to an 18-35 year old customer base, with 34 stores in shopping mall and high street sites around New Zealand. Max had achieved impressive historic growth and operating performance and was set to continue this with selective store openings and through reformatting existing stores in important locations into larger flagship stores.

In July 2005 Direct Capital announced that it had completed the succession buy-out of Max Fashions Limited. So what happened?

Direct Capital acquired a majority shareholding in Max from David. The balance of the shares are owned by senior Max managers, Leighanne Jones and Venetia Martin, who invested alongside Direct Capital, whilst David also retained an equity interest.

David continues as Managing Director of Max for at least one year, following which he will move to the role of Executive Chairman. He is joined on the Max board by Financial Controller Leighanne, plus Ross George and Tony Batterton, representatives of Direct Capital, and independent director, Mike Beagley. Mike also sits on the boards of Hannahs, Rodd & Gunn and Just Kids, bringing strong compatible retail experience.

For David, he has been able to realise significant value from the business, and also retain an active interest (something which Direct Capital is delighted) and reward the team that has built the business with him. As for the business, David himself says, "The investment by Direct Capital allows us to take advantage of growth opportunities in the retail area, including the possibility of complementary acquisitions, in the knowledge that we have both the capital and strategic support from our new partner to do so. This is a very positive development for Max."

COMING OF AGE
FINAL CLOSE OF DIRECT CAPITAL PARTNERS III

On the 15th September 2005, Direct Capital was proud to announce the second and final close of Direct Capital Partners (DCP) III.

The journey started in April 2004, when Direct Capital was approached by leading New Zealand retail broker, ABN AMRO Craigs, to establish a private equity fund open to retail investors. This was the genesis of Pohutukawa Private Equity, a fund raised in conjunction with ABN AMRO Craigs and closed in October 2004.

With the closing of Pohutukawa Private Equity, Direct Capital embarked upon DCP III in November 2004. DCP III is Direct Capital's third institutional private equity fund to focus on mid-market (businesses with an enterprise value of $20m - 100m) private equity investments in both New Zealand and Australia and has an emphasis on succession MBO's, trans-Tasman expansions and pre-Initial Public Offering investments.

First close came quickly in April 2005 and to facilitate a number of later investors, final close was in September. Commitments were received from nine institutions, which when combined with Pohutukawa Private Equity provided a capital pool of NZ$120m.

Commitments were received by existing and new investors to Direct Capital and included a number of local NZ institutions new to the private equity asset class, as well as ING Private Equity Access. ING is the first Australian institutional investor to invest with Direct Capital in New Zealand.

A major investor, with a commitment of $20m to DCP III, was the New Zealand Superannuation Fund, advised by Quentin Ayers of Australia.

Direct Capital was particularly delighted by the number of new local institutions which have committed to the private equity asset class and the precedent of Australian institutional investment.

Today, DCP III confirms that the NZ industry has moved into a new era, consistent with global market practice where private equity has been a large and profitable asset class amongst investing institutions for a number of years.

The combination of DCP III and Pohutukawa will also mean that for the first time New Zealand executives and businesses will be able to access private equity from a local partner on a scale where previously they would have been forced to consider off-shore alternatives.

DIRECT CAPITAL PARTNERS CONT.

COMING THROUGH
EXPRESS INTERNATIONAL LOGISTICS

EXPRESS INTERNATIONAL LOGISTICS (EXPRESS) IS ONE OF NEW ZEALAND'S LEADING LOGISTICS COMPANIES. IT HAS BASES IN AUCKLAND, PALMERSTON NORTH, WELLINGTON, CHRISTCHURCH, SYDNEY, MELBOURNE AND BRISBANE AND EMPLOYS OVER 200 PEOPLE.

Throughout New Zealand and Australia Express are licensed customs brokers, IATA accredited airfreight forwarders and operate their own customs bonded warehouse facilities.

Beyond Australia and New Zealand, Express works with a select network of agents to offer a range of international services including: import/export, air and ocean freight services, international courier, contact third-party warehousing and distributon, and local transport services, on all the major trade lanes to and from Australia and New Zealand.

Established in 1989 by Brendon Thomas, the company has seen substantial growth particularly since 1998 when Brendon was joined by now Managing Director, Graeme Mann. In 2004, Brendon decided he wanted to realise a significant proportion of his stake in the business, start to step back from day to day business and also reward the team that he had built around him for their commitment to him and the company.

Brendon then started the process of finding a buyer. Initially, his focus was on finding a trade buyer, expecting that this would maximise value. It was only quite late in the process that a local private equity partner was considered. Surprisingly for Brendon, valuation was no different, terms were more flexible and the process substantially quicker.

In October 2005 Direct Capital and investment company Waterman Holdings purchased a majority shareholding in Express. The balance of shares is now owned by Express founder Brendon Thomas, Graeme Mann and other senior Express managers and staff who invested alongside Direct Capital and Waterman Holdings.

Of particular note is the widening of share ownership amongst Express staff. Under the succession buy-out solution provided by Direct Capital, nearly 50 employees are scheduled to become shareholders in Express.

Brendon Thomas and Graeme Mann remain as directors alongside representatives from both Direct Capital and Waterman. Graeme Mann continues as Managing Director and an Australian based independent director is expected to be appointed shortly.

"Beyond Australia and New Zealand, Express works with a select network of agents to offer a range of international services"

DIRECT CAPITAL TODAY WHERE ARE WE?

After an active year of fund raising and investment in 2005, Direct Capital finds itself in a great position for 2006. Today Direct Capital is actively managing four pools of capital:

FUND	YEAR OF FIRST CLOSE	SIZE NZ$ M	INVESTMENT SIZE NZ$ M	FOCUS
DCP II	1998	26		Private equity – fully invested
TMT Ventures	2001	103	3-15	Venture capital – telecommunications, technology and media
DCP III/Pohutukawa	2004	120	5-20	Private equity – MBO / MBI, late stage expansion and pre IPO
BioPacificVentures	2005	100	3-15	Venture capital – Health through food, agriculture and bio-tech

LOOKING TO 2006 AND BEYOND

- DCP II continues to develop the creation of shareholder value for its remaining investments.
- TMT Ventures has recently completed its new investment phase and is now looking to invest in its core sectors and build its existing portfolio.
- Both Direct Capital Partners and BioPacificVentures recently commenced their new investment phase and this, alongside building the young portfolios, is the focus.

As a business, Direct Capital has grown substantially over the past two years, putting it in a better position to support its partners than ever before.

To those who have worked with us recently – thank you for your support, and to those who have not, we hope to have the opportunity to work with you over the coming year.

ROSS GEORGE

"As a business Direct Capital has grown substantially over the past two years"

DIRECT CAPITAL

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