

1 February 2012

Dear Shareholder

### **Pohutukawa II Shareholder Update**

The Pohutukawa and Direct Capital team has been busy over the December-January holiday period, including a new investment in Hiway Group Limited and a follow-on investment in Scales Corporation Limited (for its Turners & Growers share bid). We are also expecting another follow-on investment in an existing portfolio company during the first quarter of 2012.

#### *Hiway Group Limited*

On 9 January 2012 Direct Capital, through its Direct Capital IV and Pohutukawa II funds, announced that it had completed an investment in Hiway Group Limited (Hiway), New Zealand's leading provider of specialist roading and ground stabilisation services. This was the fund's sixth investment with Direct Capital IV and Pohutukawa acquiring a majority interest in Hiway. Pohutukawa has invested \$3.646 million for its share.

Hiway Group is the family business of Peter Boocock and his sons, John and Paul. The investment by Direct Capital, co-investment partners and Pohutukawa II is to fund the sell-down by Peter Boocock of his shareholding. Following the acquisition Direct Capital will join John and Paul Boocock and existing management as shareholders in the business.

Hiway Group has a long and successful history dating back to its establishment in 1982. The company has led the way in introducing modern techniques and specialist equipment used in stabilising the ground works associated with road construction and civil works. Hiway Group operates through two main operating companies, Hiway Stabilizers and Hiway GeoTechnical deploying a number of specialist technologies including deep soil mixing, soil nailing, aggregate modification, sub-grade stabilisation, fill drying and foamed bitumen recycling. The company also offers a number of environmental contracting services including soil recycling and site remediation.

#### *Scales Corporation Limited*

The Scales board has identified a further significant and timely investment opportunity and secured a 5.95% cornerstone shareholding in Turners & Growers in January 2012. Scales also has options with certain other shareholders to acquire a further 4.03%. This would lift Scales stake in Turners & Growers to 10.0% and provide it with some 'sway' in any industry consolidation discussions. Turners & Growers and Scales subsidiary, Mr Apple, are the biggest players in the New Zealand apple industry, and together account for more than 50% of the New Zealand apple industry.

Turners & Growers has been subject to a takeover offer by German agricultural trading company, BayWa Aktiengesellschaft ("BayWa") with an initial closing date of 9 January 2012. BayWa has since extended the closing date of its offer for a further 30 days to 8 February 2012. Scales is likely to complete the balance of the share acquisition prior to the final close date of BayWa's offer.

Scales, which owns Mr Apple, (New Zealand's largest integrated grower, packer and exporter of apples), has no intention of launching a competing takeover offer for Turners & Growers. Scales is supportive of Turners & Growers remaining listed on the New Zealand Stock Exchange with strong minority shareholder representation. Scales is interested in exploring with Turners & Growers whether there are opportunities for industry consolidation and enhanced grower and industry returns.

The investment in Turners & Growers by Scales is approximately \$20 million. Pohutukawa's share is \$2.275 million.

These two investments are being completed using our remaining cash resources and drawing on our bank facility to bridge the shortfall between settlement and when call monies are received from Pohutukawa shareholders.

We will make a further call on Pohutukawa II shareholders of approximately 10 cents per share. The Call Notice will be issued on 1 March 2012 providing a 30 day call notice period, with payment due on 2 April 2012.

Your Pohutukawa II shares are currently paid to 37 cents per share with a commitment to meet the total subscription price of \$1 per share. A 10 cent call will take your total capital payment to 47 cents per share.

The Call will be applied to firstly repay our bank facility, with the balance used for further investment activity during 2012 and for ongoing working capital.

If you have any queries, please contact Peter Lalor on 07 5774 727 or email to [enquiries@pohutukawafund.co.nz](mailto:enquiries@pohutukawafund.co.nz).

We thank you for your loyal support.

Yours sincerely

**Pohutukawa Private Equity II Limited**

A handwritten signature in blue ink, appearing to read 'John McDonald', with a horizontal line underneath.

**John McDonald**  
Chairman