

Wairarapa Group Forest Investment Prospective Financial Information to 31 March 2020

The Prospective Financial Statements of Wairarapa Group Forest Investment (WGF) comprise the following Prospective Financial Information (PFI) and other PFI related information for the 7 months and 1 day ending 31 March 2019 (FY19) and the 12 months ending 31 March 2020 (FY20). Refer to the limited assurance review engagement opinion by Staples Rodway.

Introduction

These prospective financial statements comprise the following:

- Prospective Statement of Comprehensive Income
- Prospective Statement of Changes in Equity
- Prospective Statement of Financial Position
- Prospective Statement of Cash Flows

This document should be read in conjunction with the Product Disclosure Statement (“PDS”) and the Forest Management Plan provided on the Disclose Register (www.business.govt.nz/disclose, offer number OFR12486).

Basis of preparation and presentation

The PFI has been prepared in accordance with the requirements of Financial Reporting Standard 42: Prospective Financial Statements. The PFI, and underlying assumptions, have been prepared by management and approved by the Forest Enterprises Limited Board (the “Directors”) specifically for the Public Offer of shares in WGF (the “Offer”).

Forest Enterprises is the licenced Manager of the Scheme. The Directors have given due care and attention to the preparation of the PFI and authorised the PFI as at 29 August 2018 for the purpose stated above. The PFI may not be suitable for any other purpose. PFI, by its nature, is inherently uncertain. It involves predictions of future events that cannot be assured as well as risks and uncertainties which are often beyond the control of WGF. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Various risk factors and the management thereof may influence the success of WGF’s business. Refer further to Section 7 “Risks to returns from Wairarapa Group Forest Investment” in the PDS. Accordingly, actual results may vary from the PFI, and those variations may be significantly more or less favourable. The Directors cannot and do not guarantee the achievement of the PFI.

Financial Periods

The PFI covers the following periods:

- Forecast financial information for FY19
- Forecast financial information for FY20.

The Directors are responsible for and have authorised the issue of the PFI on 29 August 2018. There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The WGF will present a comparison of the PFI with actual financial results in its FY19 and FY20 annual reports, as required by clause 59, Schedule 5, of the Financial Markets Conduct Regulations 2014.

Other PFI Related Information

Refer also to the offer register, where Prospective Financial Information over the Expected Life of the Investment is included based on assumptions set out. Harvest assumptions which this information are based on are contained in the Forest Management Plan. Caution should be exercised as many factors could change over the 28 years of the investment term.

Wairarapa Group Forest LP

Prospective Statement of Comprehensive Income

7 months & 1 day
ending 31 March
2019

12 months ending
31 March 2020

	Note	\$	\$
INCOME			
Interest Received		0	0
Forestry Right Income		54,200	91,575
Harvest Income		0	0
TOTAL INCOME		54,200	91,575
LESS EXPENDITURE			
Forestry Expenditure			
Establishment		102,610	87,400
Tending		65,430	187,610
Maintenance		27,830	27,830
Protection		1,390	1,460
Insurance		12,870	13,960
Rates		5,130	6,840
Total Forestry Expenditure		215,260	325,100
Other Expenditure			
Management Fees		25,780	27,170
Supervisor Fees		4,250	4,250
Financial Audit - Staples Rodway		2,500	2,500
Forestry Audit - Forme Consultancy		2,000	2,000
Investment Update and Valuations		5,500	5,500
Legal and Other Professional Fees		0	0
Formation, Mapping and Inventory		3,000	1,820
Borrowing Costs and Bank Fees		12,310	10,580
Industry Subscriptions and Levies		3,000	3,000
Filing Fees and Disbursements		10,000	10,000
Investor Meeting Costs		0	5,000
Total Other Expenditure		68,340	71,820
Depreciation			
TOTAL EXPENDITURE		283,600	396,920
NET FOREST DEVELOPMENT INCOME (EXPENDITURE)		(229,400)	(305,345)
Change in Fair Value		168,040	275,010
Scheme Set-up Costs		(232,264)	
Net Profit (Loss)		(293,624)	(30,335)
Other Comprehensive Income		0	0
Total Comprehensive Income		(293,624)	(30,335)



Wairarapa Group Forest LP

Prospective Statement of Changes In Equity

	As at 31 August 2018	For the Period to 31 March 2019	For the Period to 31 March 2020
	Note	\$	\$
EQUITY			
Opening Equity	0	4,221,961	4,160,601
Contributions from owners			
Application / Calls		232,264	494,500
Awaroa Forestry Right Payments		0	0
Issued Shares	4,221,961		
Scheme Establishment Costs		0	
Closing Investment by Limited Partners	4,221,961	4,454,225	4,655,101
Total Comprehensive Income		(293,624)	(30,335)
NET EQUITY	4,221,961	4,160,601	4,624,766



Wairarapa Group Forest LP

Prospective Statement of Financial Position

	As at 31 August 2018	As at 31 March 2019	As at 31 March 2020
Note	\$	\$	\$
CURRENT ASSETS			
Cash and cash equivalents	0	20,600	0
Total Other Current Assets	0	20,600	0
TOTAL CURRENT ASSETS			
PROPERTY, PLANT & EQUIPMENT			
Roading			
Road Formation	0	0	90,000
Total Roothing	0	0	90,000
Non Depreciable Assets			
Land at Cost	2,561,315	2,561,315	2,561,315
Biological Assets			
Forest Crop Value	1,660,646	1,828,686	2,103,696
Total Non Depreciable Assets	4,221,961	4,390,001	4,665,011
TOTAL ASSETS	4,221,961	4,410,601	4,755,011
LESS CURRENT LIABILITIES			
Cash and cash equivalents	0	0	245
TOTAL CURRENT LIABILITIES	0	0	245
TOTAL LONG TERM ASSETS			
Less BNZ Term Loan	0	250,000	130,000
TOTAL LIABILITIES	0	250,000	130,245
EQUITY	4,221,961	4,160,601	4,624,766
TOTAL LIABILITIES and EQUITY	4,221,961	4,410,601	4,755,011



Wairarapa Group Forest LP

Prospective Statement of Cash Flows

	7 months & 1 day ending 31 March 2019	12 months ending 31 March 2020	
	Note	\$	\$
Operating Activities			
Receipts from Suppliers and Others (Awaroa FR)		54,200	91,575
Interest Received			
Harvest Income			
Payments to Suppliers and Others		(283,600)	(396,920)
Interest Paid			
Net Cash from Operating Activities		(229,400)	(305,345)
Investment Activities			
Cash flows from Investment activities			
Cash was applied to:			
Sale/ (Purchase) of Fixed Assets			(90,000)
Scheme Issue Costs		(232,264)	
Net Cash from Investing Activities		(232,264)	(90,000)
Financing Activities			
Mortgage Borrowings/ (Repayments)		250,000	(120,000)
Partners' Investments		232,264	494,500
Net Cash from Financing Activities		482,264	374,500
Net increase (decrease) in cash and cash equivalents		20,600	(20,845)
Cash and cash equivalents at start of period		0	20,600
CLOSING FUNDS ON HAND at year end		20,600	(245)

Reconciliation to Profit (Loss)	7 months & 1 day ending 31 March 2019	12 months ending 31 March 2020	
	Note	\$	\$
Net profit (loss)		(293,624)	(30,335)
Less increase (decrease) in fair value		168,040	275,010
Plus Scheme Issue Expenses		232,264	0
NET CASH FROM OPERATING ACTIVITIES		(229,400)	(305,345)

Notes and Assumptions for the period ending 31 March 2019 and the year ending 31 March 2020

The purpose of the prospective financial statements is to assist investors in assessing the viability of and return on funds invested. The PDS and the prospective financial information contained in it may not be appropriate for any other purpose. It should be noted that harvest income will not be received until the trees are around 26 years old, so the amount of Calls is the most relevant financial measure in the early years of this long-term investment.

Wairarapa Group Forest Investment is the generic name for the forest investment comprising both Wairarapa Group Forest LP and Wairarapa Group Forest GP Ltd. Under the Financial Markets Conduct Act 2013 (FMCA) it is a registered managed investment scheme. It is scheme number SCH*** on the Disclose Register.

Wairarapa Group Forest LP is the operational entity and registered and domiciled in New Zealand under the Limited Partnerships Act 2008 for the purpose of establishing, maintaining, managing and harvesting trees on land owned by the Limited Partners.

The prospective financial statements were authorised for issue on 29 August 2018 by the board of the Manager. The Manager is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. It is not intended to update the prospective financial information subsequent to issue.

The assumptions have been based on those set out in the Forest Management Plan and PDS. Briefly these assumptions assume establishment and pruning will be carried out in the above periods.

It is also assumed that settlement of the 3 forest properties will occur on 31 August and shares in the LP will be issued to the sellers. As one of the sellers, Forest Enterprises Growth will then offer its shares in the LP to the public under the PDS.

Statement of Accounting Policies:

The Entity

The LP will be an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and will report as a Tier 1 For Profit entity. The prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZGAAP) as it related to the prospective financial statements, and comply with FRS-42 Prospective Financial Statements. The accounting policies and disclosures adopted in these prospective financial statements reflect those required by the New Zealand Equivalents to international Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit orientated entities.

The actual annual financial statements for the LP will be prepared in accordance and comply with NZIFRS and also International Financial Reporting standards. The accounting policies adopted in the prospective financial statements reflect the policies expected to be adopted in the actual annual financial statements. Actual financial results achieved for particular periods are likely to vary from information presented and the variations may be material.

Measurement System Adopted

The Prospective Financial Statements are presented in New Zealand Dollars. The Prospective Financial Statements have been prepared on the basis of historical cost, going concern and accrual accounting, except that forest treecrop and Inventory will be valued at fair value. The statements are GST exclusive other than for Debtors and Creditors where the gross amount due or owing is shown.

Accounting Policies Adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these Financial Statements. None of these are expected to have a significant effect on the Financial Statements of the LP. Standards issued that are available for early adoption include NZ IFRS 9 - Financial Instruments and NZ IFRS 15 - Revenue from Contracts with Customers (both effective for annual reporting periods beginning on or after 1 January 2018), as well as NZ IFRS 16 - Leases (effective for annual reporting periods beginning on or after 1 January 2019).

Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services net of discounts and GST.

Biological Assets

The treecrop is included in the Financial Statements at fair value and increases/(decreases) in fair value are reported in the Statement of Comprehensive Income as a profit or loss each year.



Financial Risk Management Strategies

The LP is committed to establishing and managing the treecrop through to harvest. It is exposed to financial risks arising from changes in log prices. There will be no derivative or other contracts in place to manage the risk of a decline in log prices.

Inventory

Inventory, represented by logs on hand at balance date, will be recognized at fair value less costs to sell at the point of harvest. Inventory values disclosed in the financial statements are estimated using expected/indicative log grade sales prices.

Property, Plant & Equipment and Depreciation

Property, Plant & Equipment (including land) are recorded at cost and where applicable, Depreciation has been claimed so as to allocate the cost of the assets over their useful lives (as tabled below).

Depreciable Asset	Depreciation Basis and Rate	
Land Preparation	Diminishing Value	6.3%
Roading	Diminishing Value	20.0 – 25.0%
Fencing	Diminishing Value	10.0%

Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. These are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within Current Liabilities on the Statement of Financial Position.

Sundry Debtors

Debtors are recognised at fair value less any less provision for impairment.

Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the LP prior to the end of the financial year which are unpaid. Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are carried at face value.

Treecrop

Key assumptions in determining the Forest Crop value, which are categorised as level 3 within the fair value hierarchy are:

If the average age of the treecrop is 5 years old or younger, fair value is assumed to equal cost. In other cases, fair value of the treecrop is derived by discounting back the projected cashflows for the remainder of the current rotation.

Quantitative information about unobservable inputs	Inter-relationship with fair value measurement
Average weighted stumpage is estimated at \$36,735 per hectare based on the expected log volumes and types.	The estimated fair value would increase (decrease) if the average weighted stumpage was higher (lower).
Annual expenditure is based on the current estimate of the costs to be incurred with reference to prior costs incurred and the remaining silviculture program.	The estimated fair value would increase (decrease) if the estimated annual expenditure was lower (higher).
A nominal land use charge of \$60 per hectare per annum, based on calculated market rentals being paid on crown forest leases in the regions of Forest Enterprises managed forests.	The estimated fair value would increase (decrease) if the nominal land use charge was lower (higher).
The discount rate used to derive the fair value is 10% pre-tax.	The estimated fair value would increase (decrease) if the discount rate was lower (higher).

All forest Crop is considered to be an average age of 5 years or younger at the moment.

Related Parties

Forest Enterprises is the business name of Forest Enterprises Growth Ltd and its subsidiary Forest Enterprises Ltd. The fees payable to Forest Enterprises are -

- A base fee for Forest Management, plus Administration and Accounting services of \$28 per planted hectare, per annum.
- An Investor Administration fee of \$40 per investor per annum.
- A Coordination and Supervision fee of 20% of actual expenditure charged, of a non-disbursement nature.
- Where lease income is arranged, 10% of the Grazing income is deducted as a coordination and supervision fee.
- An Investment Update and Indicative Valuation fee of 5.5 cents per share (equivalent to \$11 per 200 shares).

Where it is commercially practical and not disadvantageous to Investors, the Manager may undertake work that would otherwise be contracted to a third party and charge a commercially reasonable fee for that work. The Manager is also entitled to recover all reasonable disbursements and third party charges.

The total of all ongoing Managers fees is:

Ongoing Investment Fees & Expenses				
Manager and associated persons.	Period Ended 31 March 2019	As percentage of Scheme Net Assets	Year Ended 31 March 2020	As percentage of Scheme Net Assets
Base management Fee	25780	0.61%	27170	0.59%
Forest Activity Supervision Fee	36022	0.85%	53847	1.17%
Investment Update and indicative valuation fee	5500	0.13%	5500	0.12%
Investor Meeting Costs	0	0.00%	5000	0.11%
Disbursements	5000	0.12%	5000	0.11%

Set Up Fees

The fees and expenses charged to the Investment on its Set Up by the manager are:

Set Up Fees			
Manager and associated persons	Nature of Fee	Period to 31 March 2019	
Property Purchase	Managers Fees within the Property purchase price of \$4,367,736 are:		
Managers Supervision Fee	A fee equivalent to the 20% charge of the actual cost of work actively supervised, while the land was held by Forest Enterprises Growth Ltd	\$28,918	
Holding Costs for Rangiora Property	A fee for holding costs pending setting up the Scheme relating to the Rangiora Property	\$54,933	
Total Manager and associated persons Fees included with Property Purchase			\$83,851
Offeror's fee		\$100,000	
Legal Fees	FEL internal Legal Fees for Documentation	\$70,000	
Subtotal of Other Manager and associated persons Fees			\$170,000

The above fees are payable by the Investment. In respect of the legal fees and other expenses, the Manager may have already met these costs on behalf of the Investment prior to Settlement of the Properties and, accordingly, is entitled to reimbursement. Other fees may be paid by the Manager between the dates of settlement and this PDS. Those fees will be reimbursed to the Manager. These fees will not change as they are incurred upfront and the Manager is responsible for any under or overs.

Financial & Other Risks

Credit Risk Financial instruments that potentially subject the investment to credit risk principally consist of the bank balances and accounts receivable. The maximum exposures to credit risk at balance date are disclosed in the Statement of Financial Position.

Liquidity Risk The major asset of land and trees has no active market for sale. The treecrop is being managed through until harvest at approximately age 26 years, where it will be harvested at prevailing prices.

All financial asset risks are being managed in accordance with normal procedures. BNZ & Trustees Executors are being used for cash balances, and accounts receivable are regularly being monitored.

Interest Rate Risk:

Credit Facilities

The BNZ term loan has the following expected maturity profile:

Financial Year Ending 31 March	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balance at Start of year (\$)	\$0	\$250,000	\$130,000	\$80,000	\$175,000	\$250,000	\$400,000	\$650,000	\$400,000	\$125,000
Borrowings (\$)	\$250,000			\$95,000	\$75,000	\$200,000	\$200,000			
Repayments (\$)		\$120,000	\$50,000					\$250,000	\$275,000	\$125,000
Balance at End of Year (\$)	\$250,000	\$130,000	\$80,000	\$175,000	\$250,000	\$450,000	\$650,000	\$400,000	\$125,000	\$0

The land for the 3 forest properties will be held as first mortgage security by BNZ for the borrowings and overdraft facility. The floating interest rate for the term loan facility is 5.48% at the date of the PDS. There are no financial covenants relating to the loan and refinancing the facility is needed to extend the initial 5-year term. Repayment is scheduled for July 2027

The LP will have a \$40,000 overdraft facility. The interest rate applying to this facility at the date of the PDS is 10.70%.

Market Risk - No reasonable possible movement would be considered to have a material effect on profit or equity

Fair Values: The carrying amount of financial instruments are estimated to be fair values of those instruments.

Taxation

The LP is not separately assessable for tax purposes. Tax consequences pass through to the Limited Partners in proportion to their shareholding.

Changes in Accounting Policies

All policies have been applied on a consistent basis throughout the reported prospective periods of these Financial Statements.

