

# Ngatawhai Group Forest Investment

## Prospective Financial Information to 31 March 2021

The Prospective Financial Statements of Ngatawhai Group Forest Investment (NGF) comprise the following Prospective Financial Information (PFI) and other PFI related information for the 7 months and 2 days ending 31 March 2020 (FY20) and the 12 months ending 31 March 2021 (FY21). Refer to the limited assurance review engagement opinion by Baker Tilly Staples Rodway Audit Limited.

### 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](http://www.business.govt.nz/disclose), offer number OFR12726).

### 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 NGF (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 6 September 2019 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 NGF. 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 NGF's business. Refer further to Section 7 *Risks to returns from Ngatawhai 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 FY20
- Forecast financial information for FY21

The Directors are responsible for and have authorised the issue of the PFI on 6 September 2019. There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The NGF will present a comparison of the PFI with actual financial results in its FY20 and FY21 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.



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Forest Enterprises is the business name of Forest Enterprises Growth Limited and its subsidiary Forest Enterprises Limited. Forest Enterprises Limited is licensed to manage Managed Investment Schemes (excluding managed funds) which are primarily invested in forestry assets.

# Ngatawhai Group Forest LP

## Prospective Statement of Comprehensive Income

7 months & 2  
days ending 31  
March 2020

For the Year to  
31 March 2021

	\$	\$
<b>INCOME</b>		
Forestry Right Income	160,948	101,459
Harvest Income	0	0
<b>TOTAL INCOME</b>	<b>160,948</b>	<b>101,459</b>
<b>LESS EXPENDITURE</b>		
<b>Forestry Expenditure</b>		
Establishment	176,905	105,109
Tending	204,159	175,877
Maintenance	15,700	15,700
Protection	856	941
Insurance	14,889	9,121
Inventory	3,200	0
Rates	6,390	7,350
<b>Total Forestry Expenditure</b>	<b>422,099</b>	<b>314,098</b>
<b>Other Expenditure</b>		
Management Fees	15,980	17,564
Supervisor Fees	4,250	4,250
Financial Audit	2,500	2,500
Forestry Audit	2,000	2,000
Investment Update and Valuations	3,300	3,300
Formation, Mapping and Inventory	1,289	1,126
Borrowing Costs and Bank Fees	23,530	24,100
Filing Fees and Disbursements	10,500	5,000
Investor Meeting Costs	500	5,000
<b>Total Other Expenditure</b>	<b>63,849</b>	<b>64,840</b>
<b>TOTAL EXPENDITURE</b>	<b>485,948</b>	<b>378,938</b>
<b>NET FOREST DEVELOPMENT INCOME (EXPENDITURE)</b>	<b>(325,000)</b>	<b>(277,479)</b>
Change in Fair Value of Tree Crop	381,064	280,986
Amortisation of Intangible Asset	(160,948)	(101,459)
Scheme Set-up Costs	(235,000)	0
Net Profit (Loss)	(339,884)	(97,951)
Other Comprehensive Income	0	0
<b>Total Comprehensive Income</b>	<b>(339,884)</b>	<b>(97,951)</b>



## Ngatawhai Group Forest LP

### Prospective Statement of Changes In Equity

	For the Period to 31 March 2020	For the Year to 31 March 2021
	\$	\$
<b>EQUITY</b>		
Opening Equity	2,682,800	2,577,916
<b>Contributions from owners</b>		
Application / Calls	235,000	277,479
	0	
Issued Shares		
Scheme Establishment Costs		
<b>Distributions to owners</b>		
Distributions during the period	0	0
<b>Closing Investment by Limited Partners</b>	2,917,800	2,855,395
Total Comprehensive Income	(339,884)	(97,951)
<b>NET EQUITY</b>	<b>2,577,916</b>	<b>2,757,443</b>



# Ngatawhai Group Forest LP

## Prospective Statement of Financial Position

	As at 31 March 2020	As at 31 March 2021
	\$	\$
<b>NONCURRENT ASSETS</b>		
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>		
Land at Cost	1,541,000	1,541,000
<b>Biological Assets</b>		
Forest Crop Value	1,320,457	1,601,443
<b>Intangible Asset</b> - Trees to be planted	101,459	
<b>Total NonCurrent Assets</b>	<b>2,962,916</b>	<b>3,142,443</b>
<b>TOTAL ASSETS</b>	<b>2,962,916</b>	<b>3,142,443</b>
<b>LESS LIABILITIES</b>		
<b>BNZ Term Loan</b>	385,000	385,000
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>385,000</b>	<b>385,000</b>
<b>NET ASSETS</b>	<b>2,577,916</b>	<b>2,757,443</b>
<b>EQUITY</b>	<b>2,577,916</b>	<b>2,757,443</b>
<b>TOTAL EQUITY</b>	<b>2,577,916</b>	<b>2,757,443</b>



## Ngatawhai Group Forest LP

### Prospective Statement of Cash Flows

	7 months & 2 days ending 31 March 2020	12 months ending 31 March 2021
	\$	\$
<b>Operating Activities</b>		
Receipts from Customers and Others	160,948	101,459
Payments to Suppliers and Others	(462,418)	(354,838)
Interest Paid	(23,530)	(24,100)
<b>Net Cash from Operating Activities</b>	<b>(325,000)</b>	<b>(277,479)</b>
<b>Investment Activities</b>		
Sale/ (Purchase) of Fixed Assets	(60,000)	0
Scheme Issue Costs	(235,000)	
<b>Net Cash from Investing Activities</b>	<b>(295,000)</b>	<b>0</b>
<b>Financing Activities</b>		
Mortgage Borrowings/ (Repayments)	385,000	0
Partners' Investments/ (Distributions)	235,000	277,479
<b>Net Cash from Financing Activities</b>	<b>620,000</b>	<b>277,479</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(0)</b>	<b>0</b>
Cash and cash equivalents at start of period	0	(0)
<b>CLOSING FUNDS ON HAND at year end</b>	<b>(0)</b>	<b>(0)</b>

	7 months & 2 days ending 31 March 2020	12 months ending 31 March 2021
	\$	\$
<b>Reconciliation to Profit/ (Loss)</b>		
Net profit / (loss)	(339,884)	(97,951)
(increase) /decrease in fair value	(381,064)	(280,986)
Scheme Set-up Costs	235,000	0
Amortisation	160,948	101,459
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>(325,000)</b>	<b>(277,479)</b>



## Notes and Assumptions for the period ending 31 March 2020 and the year ending 31 March 2021

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.

Ngatawhai Group Forest Investment is the generic name for the forest investment comprising both Ngatawhai Group Forest LP and Ngatawhai Group Forest GP Ltd. Under the Financial Markets Conduct Act 2013 (FMCA) it is a registered managed investment scheme. It is scheme number SCH 12683 on the Disclose Register and was formed with registration of the Deed of Scheme Management on 30 August 2019.

Ngatawhai Group Forest LP is the operational entity and is 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 6 September 2019 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 four forest properties will occur on or around 16 September. Forest Enterprises Growth will then offer shares in the LP to foundation investors (those selling the four forest properties to the LP) and such of the remaining shares it acquires from Foundation Investors to new investors 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 Practise 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 measured at fair value. The statements are GST exclusive other than for receivables and payables 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 2019, 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 16 – Leases.

### Revenue Recognition

Revenue from contracts with customers (harvest income) is recognised as performance obligations are met. Revenue is measured based on consideration specified in the contract and excludes amounts collected on behalf of third parties. Interest and other investment revenue is recognised in the period it is earned.



### 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.

### Intangible asset – trees to be planted

The LP recognises an intangible asset for the agreed contribution of the previous forest owner towards replanting harvested trees. As the LP replants the trees, and as the previous owner contributes towards the costs of replanting, the intangible asset will be amortised by the amount received. The amount to be contributed by the previous owner is fixed and the LP will be responsible for any 'under' or 'overs'.

### 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	5%
Roading	Diminishing Value	20%

### 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 expected credit losses.

### 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:

Until the youngest trees average age is more than 5 years old, cost is assumed to approximate fair value. Where this applies, the costs of establishment and tending recognised in the Statement of Comprehensive Income are capitalised and recognised as a gain in fair value of the treecrop. 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 \$42,095 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 time of preparing the PDS and PFI.

## 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 \$60 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 forecast amount of all ongoing Managers fees is:

Ongoing Investment Fees & Expenses				
Manager and Associated Persons	Period ending 31 March 2020	As percentage of Scheme Net Assets	Year ending 31 March 2021	As percentage of Scheme Net Assets
Base Management Fee	\$15,980	0.62%	\$17,564	0.64%
Forest Activity Supervision Fee	\$69,500	2.70%	\$51,312	1.86%
Investment Update and indicative Valuation Fee	\$3,300	0.13%	\$3,300	0.12%
Investor Meeting Costs	\$500	0.02%	\$5,000	0.18%
Disbursements	\$5,000	0.19%	\$5,000	0.18%





## 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 2020
Offeror's fee / Brokerage	Brokerage is payable to third parties if applicable	\$120,000
Legal Fees	FEL internal Legal Fees for Documentation	\$50,000
<b>Other Party Fees</b>		
Legal Fees	Supervisor Review of Scheme Documentation and external legal fees for transferring properties to the Investment	\$46,000
Supervisor	Set-up Fee	\$5,000
PDS, Scheme Registration & FMA Levy		\$6,100
Assurance Fees	Fees paid to Forme Consulting Group Limited for their review of the Forest Plan & to Baker Tilly Staples Rodway Audit Limited for their review of the prospective financial information contained on the offer register and to Morice Limited for the updated Land Valuation.	\$7,900
<b>Total Fees</b>		<b>\$235,000</b>

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. Although there is no exposure to credit risk at balance date shown in the PFI, there is during the period covered.

**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	2020	2029	2030
Balance at Start of year (\$)	\$0	\$385,000	\$155,000
Borrowings (\$)	\$385,000		\$0
Repayments (\$)	\$0	\$230,000	\$155,000
Balance at End of Year (\$)	\$385,000	\$155,000	\$0

The land for the four 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 5.13% 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 2028 & July 2029.

The LP will have a \$40,000 overdraft facility. The interest rate applying to this facility at the date of the PDS is 10.20%.



Market Risk No reasonable possible movement would be considered to have a material effect on profit or equity during the period of the PFI.

Fair Values The carrying amount of financial instruments are estimated to be the 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.

