

Wairarapa Group Forest Investment

Supplementary Document

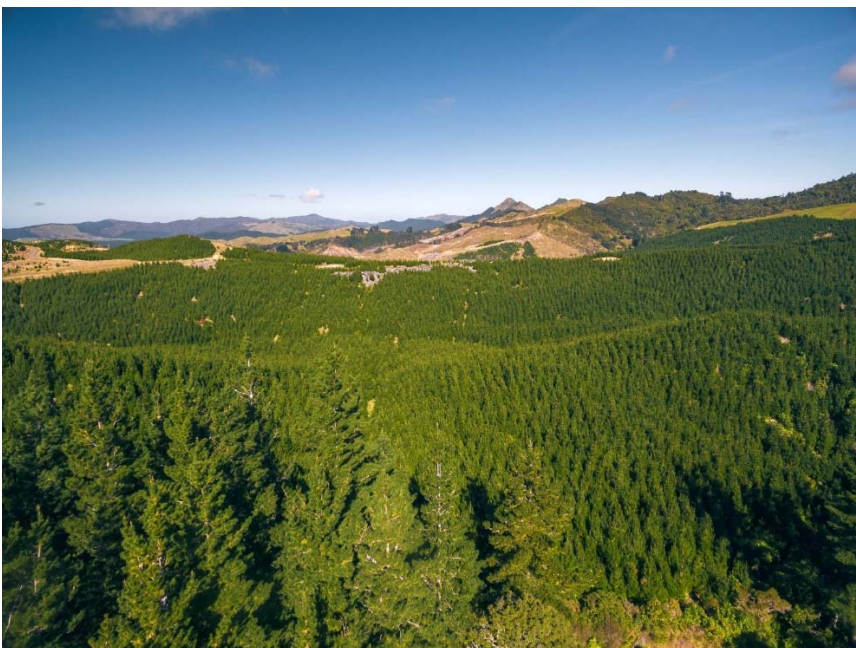
This document supplements the Product Disclosure Statement (“PDS”) dated 11 October 2018 for an offer of shares in the Wairarapa Group Forest Investment, being a Limited Partnership Structured Investment, offered by Forest Enterprises Growth Limited.

This Supplementary Document is to be read together with the PDS. This is the only supplementary document issued.

Dated 1 August 2019

This document and the PDS give you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.companiesoffice.govt.nz/disclose.

Forest Enterprises Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.



Wairarapa Group Forest Investment

Financial Information

Section 6 of the PDS contains Financial Information.

The share price is amended from \$46 per share to \$50.945 per share, or \$10,189 for each minimum parcel of 200 shares. This has arisen because the first Call due on 30 June 2019 has been made.

The total Investment Contributions for the period to 31 March 2019 were \$4,600,000 and the total Calls of \$494,500 due on 30 June 2019 have now been paid.

The audited Financial Statements and Annual Report to 31 March 2019 can be downloaded from the Disclose Register.

The principal assumptions in the Cashflow Projection on the Expected Life of the Investment are still valid. At the time the PDS was issued, 36-month average log prices to 30 June 2018 were used as the basis for projected harvest revenue. This translated to \$36,735 per hectare. If log prices were updated to 36-month average prices to 31 March 2019, revenue per hectare would increase to \$40,477 per hectare. After balance date, spot prices for logs have reduced but the 36-month average is still at similar levels.

Set out on the following pages is the Key Information Summary from the PDS. This is updated to reflect the increased price for the minimum shareholding because the date for the first Call has now passed.

All section and page references in the key information summary refer to the PDS.



1.1. What is this?

This is an Offer of shares in Wairarapa Group Forest Investment, a forest-owning **Managed Investment Scheme** (referred to as the 'Investment' or the 'Scheme'). Your money will be pooled with other investors' money and invested. The Manager of the Scheme, **Forest Enterprises Limited (FEL or the Manager)** invests the money in establishing and maintaining the forest assets for eventual harvest. FEL takes fees for this management. The assets and fees are described in this document. By investing in this Scheme, you are relying on the investment decisions of FEL and returns from the forest assets that the Scheme invests in. There is a risk that you may lose some or all of the money you invest.

Key terms and technical words in this **Product Disclosure Statement (PDS)** are defined or explained in the Glossary which can be found from page 43.

1.2. Who manages this Scheme?

Forest Enterprises Limited is the licensed Manager of the Scheme. **Forest Enterprises Growth Limited (FEG or the Offeror)**, a related party of the Manager, is the Offeror of the shares in the Scheme. Refer to Section 10 *About Forest Enterprises Limited and Others Involved in the Scheme* from page 37 for further details.

1.3. What are you investing in?

General nature of the forestry investment

The Scheme has been structured as a long-term contributory investment in 3 young **second rotation** forests in the Wairarapa region held to harvest when over 950 hectares of trees are mature.

The Scheme will conclude in around 26 years when the youngest trees are mature and harvested. The Investment return should commence in 20 years (around 2039) when the 2013 age class trees are harvested under the **Forest Management Plan** and continue for around 6 years until the remaining trees are harvested and Land sold.

A return on investment will be dependent on **stumpage** generated from harvest of the trees, sale of the **Land** and any replanted **Treecrop** on the Land at that time.

Investment objectives and strategy of the Scheme

The Scheme's investment objective and strategy is to acquire the Land, complete the Forest Management Plan to maximise the value of the Treecrop for eventual harvest and distribute the proceeds to Investors.

Key existing and proposed Scheme property

The main Scheme property is the Land (which is second rotation forestry land, classified as **pre-1990 forest land** under the Climate Change Response Act 2002), plus re-planted trees (established or to be re-established) as follows:

Forest Property	Year Established									
	2005	2009	2013	2014	2015	2016	2017	2018	2019	Total
Awaroa	0.0	0.0	0.0	0.0	0.0	107.9	117.5	33.1	49.4	307.9
Korori	0.0	0.0	33.6	14.2	0.0	43.8	45.3	10.2	0.0	147.1
Rangiora	5.9	2.4	95.8	85.8	83.9	116.2	112.4	12.6	0.0	515.0
Total Area (Hectares)	5.9	2.4	129.4	100.0	83.9	267.9	275.2	55.9	49.4	970.0

Key source of borrowings used, or able to be used, in the future to acquire scheme property

The Scheme can borrow, and the Manager has arranged a term loan facility with the Bank of New Zealand (BNZ) which will be used during the **tending** phase of the forest development to 'smooth' annual investment **Calls** so that investor contributions are similar amounts each year until **pruning** and **thinning** is completed. An initial drawdown on the loan of \$250,000 occurred in the first year so there were no Investor Calls until 30 June 2019. The maximum borrowings under the term loan is \$650,000 which will likely occur in 2024.

In addition, the Manager has arranged an operating overdraft with the BNZ of up to \$40,000.



1.4. Key terms of the Offer

Product on Offer	Shares in a Limited Partnership and an equivalent number of beneficially held shares in a General Partner Company of the Limited Partnership.
Minimum Number of Shares Available and Sunset Option	The Offeror offers for sale under this PDS: its 71,379 shares (the minimum number of shares available); and 18,179 Awaroa Shares that it acquired from the other parties on or before 30 June 2019. The shares are subject to a Sunset Option in favour of FEG, under which FEG can buy back all the shares if it has not been able to sell enough shares in the Scheme by 30 September 2019 to reduce its proportionate interest in the Scheme to 25% or less. In the unlikely event that this were to occur, Investors would be repaid their purchase price + 3% p.a. interest. Once the Sunset Option lapses (when less than 25% of the shares are owned by FEG) or earlier at FEG's discretion, Investors will be notified.
Minimum Initial Shareholding	The minimum initial investment is 200 shares, but you can invest in any number of additional shares.
Price per 200-share parcel	\$10,189 (Additional shares being \$50.95 per share).
Estimated Future Contributions (Calls) per 200-share parcel	The investment is contributory by nature, therefore Calls are made each year to fund the current year's budget until the trees are mature and ready for harvest. Calls per 200-share parcel are projected to average around \$1,044 per year from 30 June 2020 for 7 years, then drop to average around \$258 per year until harvest commences in or around 2039. Calls for different share parcel amounts will be pro rata to the 200-share parcel example. In addition, the annual \$60 Investor Administration Fee will be charged once per year regardless of the size of shareholding. Calls and timing will vary from the projections as a consequence of changes over time to the work program and prices. These changes may be material although changes to the work program that have a material cost impact are subject to Investor vote.
Failure to pay Calls	Calls are due on 30 June each year to meet the annual budget. Failure to pay Calls would put the Investor in default and subject to forfeiture of their shares as per the governing documents .
Intended Offer Opening Date	11 October 2018
Intended Offer Closing Date	No fixed closing date. Closes when all shares have been sold.
Further Details	For further details on the terms of the offer, see section 4 – Terms of the Offer.

1.5. How you can get your money out

An investment in the Limited Partnership is not redeemable on demand and there is no fixed date on which you may get your money out.

Your investment in these LP shares can be sold but there is no established market for trading these financial products. This means that you may not be able to find a buyer for your investment.

Money will be distributed to investors once harvest proceeds are received from 2039 to 2046. It is anticipated that the investment will end following the sale of the Land in 2046. Provided harvest and the sale of the Land occur according to the projected timetable, the investment term is approximately 26 years. During this projected term, Investors can arrange a private sale of their shares, or can choose to offer their shares for sale on the **secondary market** operated by Forest Enterprises Limited. See Section 5 *How the Wairarapa Group Forest Investment Works* from page 19 for more information.

1.6. Key drivers of returns

The Manager considers that the most significant current and future aspects of the Scheme that will have, or may have, an impact on the Scheme's financial performance are:

- Future log prices
- Crop quality at harvest
- Harvest and roading costs

The scale of the Investment, with a wide geographical spread through the Wairarapa (Bideford, Ngahape and Te Wharau districts) and a seven-year age class spread, should reduce the impact of any short-term impact of price changes. Furthermore, a robust Forest Management Plan, expertise in forestry management by FEG and best practice silviculture contribute to the crop quality at harvest. Further information about the key drivers or returns and the key strategies and plans of the Manager in respect of those drivers can be found on page 8 Section 2. *Factors that may affect the financial performance and Investors' returns.*



1.7. Wairarapa Group Forest Investment financial information

Returns will not be generated until harvest of the forests over 20 years away, so initially the most useful information is projected Calls each year that Investors pay starting on 30 June 2020. For each parcel of 200 shares, Calls per 200 share parcel are projected to be \$1,001 on 30 June 2020 and \$1,040 on 30 June 2021 plus the annual \$60 Investor Administration Fee paid once each year regardless of the size of shareholding. Calls per 200 share parcel will average around \$1,044 per year from 30 June 2020 for 7 years, then drop to average around \$258 until harvest commences in or around 2039.

Gearing Ratios

Gearing Ratios tell you how much the Investment owes (debt) as a portion of what it owns (assets).

On acquisition of the 3 Forest Properties	0%
At 31 March 2019	5.7%
At 31 March 2020	2.7%

Interest Cover Ratios

Interest Cover Ratios tell you how much the Investment's net income exceeds interest on its loans (as a multiple). As there is no income other than unrealised forest crop fair value increases, the ratio is negative and of less relevance.

At 31 March 2019	-39
At 31 March 2020	-30

Further information on how these amounts are calculated is included from page 23.

Prospective financial information included in this PDS has been extracted from prospective financial statements prepared in accordance with the Financial Reporting Standard 42: Prospective Financial Statements (FRS 42), which are available on the Offer Register. The prospective financial statements to 31 March 2020 have been subject to a limited assurance engagement and an unmodified opinion has been issued by Staples Rodway, a copy of which is also included on the Offer Register. Longer term Prospective Financial Information in accordance with FRS 42, not reviewed by Staples Rodway, are also on the Offer Register.

Valuation of forestry assets

The Scheme purchased the 3 forest properties listed below on or about 31 August 2018. The value of those 3 forest properties, calculated on 31 May 2018 and recalculated in August 2018 was:

Forest Property (Comprising Land and Treecrop)	Vendor	Value August 2018	Percentage of Total Value of Scheme Assets	Consideration Shares in Scheme
Awaroa	Allure Holdings Limited	\$1,241,594	28%	28,621 Shares
Rangiora	FEG	\$2,503,978	58%	57,496 Shares
Korori	FEG	\$622,164	14%	13,883 Shares
		\$4,367,736	100.0%	

The valuation is based on the objective mechanism where the Land component is based on separate independent land valuations carried out by registered land valuers and the treecrop component of the valuation is based on re-establishment costs incurred by the seller of the properties plus holding costs. For a more detailed explanation see *Acquisition of Key Property* on page 12 in section 2.

1.8. Key risks of this investment

Investments in Managed Investment Schemes are risky. You should consider whether the degree of uncertainty about Wairarapa Group Forest Investment's future performance and returns is suitable for you. The price of shares in the Scheme (including the annual Calls on such shares) should reflect the potential returns and the particular risks of these shares in the Scheme. Forest Enterprises Limited considers that the most significant risk factors that could affect the value of the Forestry Investment are:

Crop Risk	<p>The risk of unfavourable climatic events, disease and fire may cause failure of all or part of the treecrop or the forest producing less volume and poorer quality logs at harvest.</p> <p>Mitigating Factors</p> <p>These risks are minimised by careful forest management. Insurance cover is in place to minimise the risk in respect of fire and wind related events. These are second rotation forests with proven history in growing the quantity and quality necessary for a successful tree crop.</p>
Market Risk	<p>The risk associated with changes in supply and demand for pine logs over time resulting in changes in prices.</p> <p>Mitigating Factors</p> <p>The scale of the forests means that harvesting will occur over 7 years and this length of harvest will minimise the impact which cyclical periods of low prices may have on the return.</p>



Operating Environment Risk	<p>The risk that restrictions could be placed on harvesting and/or the cost of compliance increases, the risk of inflation, exchange rate fluctuations and changes in taxation rates and regimes.</p> <p>Mitigating Factors</p> <p>Improvements in harvesting technology and the increased mechanisation of harvesting are trends that are likely to continue to counter compliance cost increases. Cost inflation is likely to be mitigated by revenue inflation. Exchange rate changes and resulting prices changes will be mitigated by the length of harvest as above.</p>
Counterparty Risk	<p>Post-harvest, when the logs are sold, receivables owed to the Scheme which will at various times be held by counterparties such as the buyers of the logs or by FEG as the forestry manager under a Forestry Management Services Agreement with FEL. From this money, the harvest costs are paid, before the resulting net amount is passed back into the custody of the Scheme's Supervisor.</p> <p>Mitigating Factors</p> <p>FEG's marketing and shipping agents require irrevocable letters of credit for payment by overseas buyers. The risk of non-performance by FEG is extremely low because under the FMC Act contracting out by the Manager does not affect the liability of the Manager which remains responsible for the performance of those functions under the Forestry Management Services Agreement.</p>

This summary does not cover all of the risks. You should also read Section 7 *Risks to Returns from Wairarapa Group Forest Investment* from page 29, and other parts in this PDS that describe risk factors.

1.9. What fees will you pay?

The table below summarises the fees and expenses that you will be charged to invest in this Scheme. Further information about fees is set out in Section 8 *What are the Fees?* from page 31.

The fees in the table are an estimate of fees to be charged to the Scheme in the periods indicated. Each individual Investor's share of these expenses will relate to their pro rata share of the Investment. If an Investor purchases the minimum shareholding of 200 shares, the figures would be divided by 500 for the Investor's share.

Set Up Fees		Ongoing Investment Fees & Expenses		
Manager and associated persons.	Period to 31 March 2019	Manager and associated persons.	Period Ended 31 March 2019	Year Ended 31 March 2020
Property Purchase		Base management Fee	\$25,780	\$27,170
Managers Supervision Fee	\$28,918	Forest Activity Supervision Fee	\$36,022	\$53,847
Holding Costs	\$54,933	Non harvest Income Fee	\$0	\$0
Manager's offeror fee / Brokerage	\$100,000	Investment Update and indicative valuation fee	\$5,500	\$5,500
Legal Fees	\$70,000	Harvest Management Fee	\$0	\$0
Other Party Fees.		Investor Meeting Costs	\$0	\$5,000
Legal Fees	\$44,814	Disbursements	\$5,000	\$5,000
Supervisor	\$5,000	Other Fees and Expenses		
PDS, Scheme Registration & FMA Levy	\$6,100	Direct Forestry Expenditure	\$166,883	\$255,100
Assurance Fees	\$6,350	Supervisor's Fees	\$4,250	\$4,250
Total Fees	\$316,115	Audit Fees	\$4,500	\$4,500
		Insurance	\$10,725	\$11,633
		Levies	\$2,500	\$2,500
		Rates	\$5,130	\$6,840
		Interest Charges	\$12,310	\$10,580
		Legal & Other Professional	\$0	\$0
		Contingency	\$5,000	\$5,000
		Total	\$283,600	\$396,920

1.10. How will your investment be taxed?

The Investment is not a portfolio investment entity (PIE). See Section 9 *Tax on* page 35 for more information.

