

FOREST ENTERPRISES 'OPEN BOOK' POLICY PAYS



Forest Enterprises

Steve Wilton (left) and forestry director Dave Jervis

Business practices developed by Forest Enterprises at Masterton (in the south-east of New Zealand's North Island), have changed the nature of forest investment and enabled it to stand tall alongside conventional investments in financial advisers' portfolios.

The company has been in the business since 1972, and is the country's largest direct forest investment organisation. Its more than 6300 investors own the trees and land of 73 forests covering more than 22,000 ha. The forests are located on the east coast of the North Island, in proven growing areas with well established infrastructure and major forest ports nearby.

Forestry's connection with the environment is a large part of its investment appeal. Owners can visit their trees and see them growing. However, the emotional appeal can cloud more practical considerations, opening the door to questionable practices by some managers.

Recognising the need for industry reform, Forest Enterprises undertook a major review of the market in 1991 to identify what needed to be done to

"take forests out of the widget basket" in the words of business director Steve Wilton, and into the mainstream.

The changes required fell into the general categories of investor convenience and transparency.

With amendments to the tax laws to enable loss attributing qualifying companies, Forest Enterprises was able to provide limited liability companies as investment vehicles. It also created a 'forest exchange', allowing investors to turn their asset into cash early, or to buy into a growing forest. Forest Enterprises says it operates the only true secondary market for direct forest investments in New Zealand

Perhaps more boldly, the company gave the investors complete control of their forest assets by opening its books and embracing a system of checks and balances. Instalments are paid directly to Tower Trust, where they are held until called upon to meet authorised and budgeted expenditure, or to pay harvest dividends to investors.

The trustee company acts as an independent 'watchdog' over owners' interests throughout the life of the investment. Additionally, Forest

BUYER BEWARE

Forest Enterprises rates transparency very highly in its dealings with clients, and takes care to warn would-be investors of some of the shady practices in the industry.

Free riding: the promoter becomes an investor but does not pay his share of the annual investment costs, deducting them instead from the eventual harvest proceeds. Thus the investors have given

the promoter a free share of the harvest by carrying his costs.

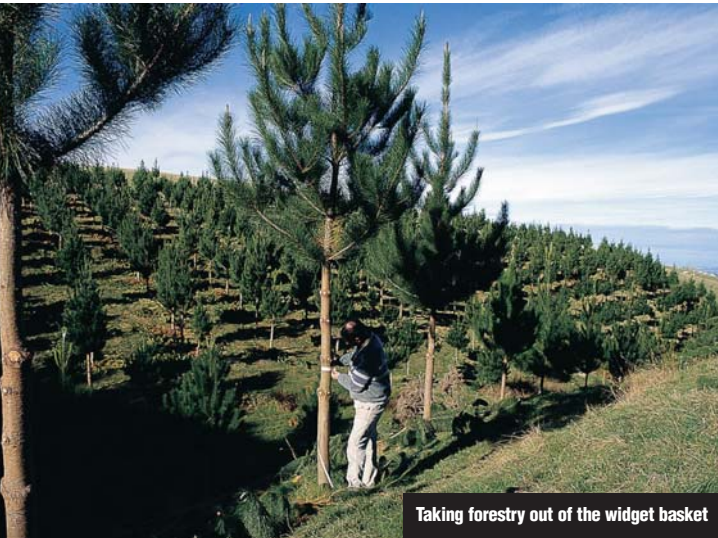
Land grabbing: the promoter becomes the landowner by way of a 100% interest-free loan financed by the investors, who forgo interest and pay the promoter at harvest for the use of his land.

Squatting: the manager's contract with the investors is fixed for the term of

the investment regardless of how well he does his job. In extreme cases, investors might have to employ another manager and pay another fee to get the forest managed properly. The scenario becomes even worse when the management contract provides for the manager's fees to increase regularly in line with inflation.

Enterprises has a registered forestry consultant as an owner and director, and three others in its organisation. The company's businesslike approach is widely recognised in the investment community.

Richard Renfrew of Creating Wealth Ltd, Wellington, finds that forestry appeals to people in the 23-30 age group looking for a long term investment, perhaps for their retirement. He recommends Forest Enterprises ahead of all other forest investment companies.



Taking forestry out of the widget basket

"It's the only company that has opened up its books, and it has a sound track record. It has also made conservative projections of returns when other companies have been over-optimistic. I've been approached by other forest investment companies from time to time, but I haven't felt confident about them. Because forestry is a long-term investment, the soundness of the management company is very important."

Thames, in the North Island, is a retirement town and Lester Chaplow, of Hauraki Taxation Chartered Accountants, sells forest investments to mainly older people, many in their 70s. He works with several forest investment companies, but mostly with Forest Enterprises, and he appreciates its professionalism. In the early 1990s Chaplow reviewed every forest investment company in New Zealand while researching for a paper on primary industry accounting at Massey University.

"I found that Forest Enterprises had the best investment structure, and this was even before they were able to bring in the tax benefits of loss attributing qualifying companies."

Renfrew and Chaplow both have forest investments, and admit to a small glow of satisfaction when they visit them.

The best way to make MONEY OUT OF TREES is to invest with forestry experts!



Forestry is a great investment, but like all investments the best returns are made by those who invest with the experts. This year Forest Enterprises commenced harvest of forests planted for our original investors in the early 1970's. Today we manage 73 forests comprising 22,000 hectares for more than 6,370 investors from throughout New Zealand and overseas. We know forestry from planting to harvest.

Currently we have investment opportunities available in new and existing forests to suit most budgets.



Steve Wilton
Business Director



YES! Please send me more information

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