

«AddressBlock»

1 August 2018

Dear «Greeting»,

## Collective Harvest Joint Ventures Progress Report to Participant Investments

### Background

As Special Projects Director I am responsible for implementation of the five Collective Harvest Joint Ventures in the table below. You are receiving this Progress Report as an Investor in one or more of the Participant Investments.

Collective Harvest Joint Venture	Participant Investments
<b>Emerald Hills Group</b>	Millwood Forest Investment Glenwood Forest Investment Longwood Forest Investment Goodwood Forest Investment Homewood Forest Investment Majestic Pine Forest Investment
<b>Hokoroa Group</b>	Hokoroa Forest Investment Hokoroa North Forest Investment
<b>Bideford Group</b>	Pinedale Forest Investment Tividale Forestry Partnership
<b>Te Karaka Group</b>	Ormond Forest Investment Te Karaka Forest Investment Te Karaka North Forest Investment
<b>Ngahape Group</b>	Te Hau Forestry Partnership Te Puhi Forestry Partnership Ratahuia Forestry Partnership

To date information on the Collective Harvest Joint Ventures (Joint Ventures) has been communicated to either individual Participant Investments, or the Participant Investments in each Joint Venture. We have now reached the point where most of the development is common to all five Joint Ventures, so this (and future) Progress Reports is one report to all five.

The many material advantages of collective harvest joint ventures were discussed in the presentations to Investors at the combined meetings held in the last 18 months and in subsequent communications. As a progress report this letter does not restate these advantages.

### Important Change to Proposal (Land LP and not Second Rotation Investment)

When developing a major Proposal, it is not unusual for the process of drilling into the implementation detail, plus consultation with the Supervisor (Trustees Executors), to identify the need for some refinement and additional steps.

This Proposal is no exception and the important change identified is that a second rotation investment will NOT be needed at this time. The second rotation investment for each Group of Participant Investments was initially seen as the logical solution to the serious and unequal value consequence arising from the collective harvest.

It has been identified that this consequence is better resolved by the Participant Investments land being transferred to a new special purpose limited partnership (referred to as Land LP) which will exist solely for holding the Joint Venture's land (and the replanted second rotation trees) until the end of the collective harvest.

This dealing with the land not only resolves the negative collateral consequences of collective harvest but most importantly also maintains the original expectation in the Prospectus for your investment that the land (and replanted second rotation trees) will be sold at the end of harvest.

A second rotation investment is still possible, as Land LP could ultimately morph into a second rotation investment. Doing so or not is now a decision for consideration towards the end of harvest (the correct point in time).

## **Other Consequences of Change to Land LP (refined Proposal)**

### **Simpler Process**

Not only is the refined Proposal now consistent with the original expectation in the Prospectus, it is also much simpler to implement as there is no new investment required at this time. This means that there are no Financial Market Conduct Act 2013 (FMC Act) consequences other than the limited exemption explained under *Steps Now Required - Binding Ruling* on page 3.

### **Cost Savings**

The simpler refined Proposal also means cost savings. Originally Forest Enterprises was to be paid a fee capped at the quantum of the standard real estate commission cost. The rationale being that the second rotation investment is the alternative to sale of the land and trees, plus the quantum of the fee aligns with the significant cost associated with establishment of a second rotation investment under the FMC Act.

Without the need for a second rotation investment there is no justification for this fee, so a lesser sum will be charged related to the lesser cost for the establishment of each Joint Venture and Land LP. The quantum and rationale for this fee will be set out in future communications and approval of the fee will be part of approval of the overall refined Proposal.

### **Participant Investment will hold Shares in Land LP instead of Ownership of Specific Land**

Currently each Participant Investment owns the land under its forest. Under the refined Proposal, each Participant Investment will exchange owning its own land to owning shares in the Land LP established specifically for the land related to the Joint Venture proposed for their investment.

### **Replanting and other Costs now in Land LP but still Paid by Investors**

Under the refined Proposal, the replanting of the second rotation trees will occur in Land LP and other costs such as rates and forest insurance logically now also arise in Land LP. The structure however results in the funding of these costs flowing back to the Investors, the same as would occur without Land LP.

### **No Change in Each Investor's Investment Status**

Under this refined Proposal, Investors will continue to hold unchanged their existing shares in their existing investment. No longer will Investors need to be issued with shares in a second rotation investment.



## Steps now Required

### Plan Change to be Supported by Forestry Auditor Report

Drilling into the implementation details it was identified that collective harvest by joint venture is a Plan<sup>1</sup> change as prescribed in the investment documentation. Changes to the Plan can be made, but quite appropriately trigger an approval process. The approval process includes obtaining an opinion in writing from the Forestry Auditor that the variation may be reasonably regarded as being to the commercial advantage of the investment, or reasonably necessary or desirable to protect the interests of the investment.

### Allocation of Share of Collective Harvest to each Participant Investment

In the presentations to Investors at the combined meetings on the proposed collective harvest, the Forest Crop Value Methodology was discussed. This methodology has now been refined to include review of the forestry input assumptions by the Forestry Auditor and review of the resulting Forest Crop Value calculation by the Financial Auditor.

This refined methodology has now been successfully used for the Emerald Hills Group and the two reviews completed. Similar processes are underway for the other four Joint Venture Groups.

### Allocation of Shares in Land LP to each Participant Investment

As discussed earlier, the creation of the second rotation investment has been superseded by Land LP. The methodology for allocation of the shares to each Participant Investment in Land LP will be based upon the value of the land as cutover land. The land value inputs are currently being independently assessed by Mark Morice a registered valuer with specific expertise in forestry land values.

### Binding Ruling

The rationale for using a Joint Venture structure was discussed in the presentations to Investors at the combined meetings on the proposed collective harvest, including an important related tax issue.

Since the meetings it has been decided that the tax issue is sufficiently material to warrant obtaining a Binding Ruling from the Inland Revenue. The tax experts at Deloitte Wellington have been engaged to assist in this process.

### FMC Act Exemption

As noted earlier, a material benefit of the refined Proposal using Land LP is that there are no FMC Act consequences other than the need for a limited exemption. The use of Land LP is relying upon carve out provisions in the FMC Act which allow this with limited disclosure.

This limited disclosure is logically all that is required in the circumstances, however the relevant provisions in the FMC Act are worded such that the Tividale Forestry Partnership (in the Bideford Group Joint Venture), and the three partnerships comprising the Ngahape Group Joint Venture, do not meet a land value threshold. The exemption we are applying for will enable these Participant Investments which do not meet the threshold to be treated as if they do.

## Cost Sharing

Third party professional costs are being incurred relating to the Binding Ruling, FMC Act Exemption, plus Supervisor review of the Proposal and associated documentation. Although these costs are arising now in respect of 5 Joint Ventures for 16 Participant Investments, much of this work is relevant to a total of 15 Joint Ventures comprising 48 investments

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<sup>1</sup> The Plan means the plan for planting, tending, maintaining, managing, and harvesting of trees on the land and carrying away any forest produce as set out in the Prospectus as such plan may be varied from time to time.



proposed by Forest Enterprises. Consequentially the cost of the relevant work will be shared across all 48 investments.

## Agreement in Principle by Supervisor

As noted earlier, we have engaged in extensive consultation with the Supervisor on the revised Proposal and have their agreement in principle. This consultation process is on-going and will continue through to the conclusion of the approval process.

## Updated Investor Approval Process

Earlier communications on the collective harvest Joint Venture Proposal have anticipated a three-step process, the third being the Vote. Events explained in this Progress Report have changed this original process and what is now proposed, in addition to further general Progress Reports, is -

- A report to each Participant Investment on the *Allocation of Share of Collective Harvest* together with a copy of the reviews completed by the Forestry Auditor and Financial Auditor and the opinion obtained from the Forestry Auditor on the underlying Plan change.
- A report to each Participant Investment on the *Allocation of Shares in Land LP* together with the underlying land valuation report from Mark Morice the registered valuer.
- The Voting Process with any remaining supporting information.

The voting process is still expected to occur in September, but the vote may need to be subject to receiving the Binding Ruling from Inland Revenue, and for the relevant Joint Ventures, the Exemption to be applied for.

The next general Progress Report will include a document entitled *Collective Harvest by Joint Venture* which will set out in one comprehensive report all the details relating to the now fully developed proposal for collective harvest by joint venture, and the consequential requirement for Land LP.

If there are any matters in this communication which you would like to discuss, please contact Customer Services Manager Sean Roberts (+64 6 370 6368, [sroberts@forestenterprises.co.nz](mailto:sroberts@forestenterprises.co.nz)).

Regards,



**Steve A R Wilton**  
**Special Projects Director**

