KAHEKA NO 2 FOREST PARTNERSHIP

MINUTES OF ANNUAL GENERAL MEETING
HELD AT NAPIER CONFERENCE CENTER AND THE PROPERTY
ON SATURDAY 28th APRIL 2018 AT 8:30AM.

PRESENT

A B J Company Limited (Bill & Janet Turvey), Andrew David Webster, Cook & Company Limited (Lucy & David Cook), Gadfly Enterprises Limited (David Weller), Jelora Forestry Limited (Barbara & Frank Haywood), John Alexander McLean, Peter Andrew Hay, Philip Barclay Gurney, Williams Forest Holdings Limited (Jeff, Janice & Oliver Williams).

ATTENDING:

Steve Bell, Rory Bennison, Paul van der Vort, Richard Airey (Forest Management (NZ) Limited), Will Dickie, Richard Bourne, Grant Morris (Roger Dickie (NZ) Limited), Jeff Whitlock, Margaret Prince (Moore Stephens Markhams Waverley)

APPOINTMENT OF CHAIRMAN

Nominations were called for the position of Chairman for this meeting .
Andy Webster/Lucy Cook THAT Grant Morris be appointed Chairman for this meeting.

CARRIED

APOLOGIES AND PROXIES:

Bonmart Trading Trust, Georg Thurn-Vrints, JJ's Pines Limited, John Richard Wild, Kevin Luey, Martin Gelsen, Martin John Lee, Max Lifestyles Limited, Peter Arthur Jones, Roger Dickie (No 7) Limited, Sheffield Management Limited, Shirley Ann Sowry, The J R & K K Kidd Family Trust, The RK & HI Leonard Family Trust. Proxies were held for the above named, establishing a quorum for the meeting.
John McLean/Frank Haywood THAT apologies and proxies be sustained.

CARRIED

MINUTES OF THE PREVIOUS MEETING:

The Minutes of the April 2017 general meeting had been circulated.
Jeff Williams/Janet Turvey THAT the minutes be confirmed.

CARRIED

ARISING FROM THE MINUTES

Partners recommended that a resolution be put to all partners to distribute funds from the second 50% of NZUs sold. *(NOTE -A general meeting has been called with voting to be done on line)*

REPORTS AND DRAFT FINANCIAL STATEMENTS

The reports from Roger Dickie, Forest Management (NZ) Ltd, PF Olsen's 2018 Tree Crop Valuation and the 2018 Draft Financial Statements were tabled and discussed.

PUBLIC LIABILTY INSURANCE

Andy Webster/David Weller THAT Public Liability Insurance be effected for $10 million.

CARRIED

ADMINISTRATION

Peter Hay/Frank Haywood THAT the administrators' remuneration be at a rate of $378 (GST excl.) per month. CARRIED

BUDGET/CASHFLOW
Andy Webster/Jeff Williams THAT the Budget Cashflow Statement for the year to 28th February 2019 be approved. CARRIED

It was noted the NZU sale shown in May is a drawdown of funds from the partnership's investment account where funds from the sale of NZUs are held. It is to cover ongoing running costs for the partnership.

It was stressed that with roadlining and harvest planning going on, figures were best estimates. There are a number of variables that can affect the timing of activities, such as weather, availability of roading and harvesting contractors and crews etc.

GENERAL BUSINESS
Steve Bell and Rory Bennison from FMNZ gave a harvest plan presentation and tabled a draft Cashflow forecast covering the years of harvest. *(the presentation and Cashflow can be viewed on the Kaheka 2 reports page of the website)* and there was a site visit with harvest manager Paul van der Voort and a general Q & A session in the field.

It was asked if a resolution is required to replant as harvesting progresses.
(*Note: it is standard practice to replant the harvested area each winter as to not do so would see the land revert to weeds and devalue – no resolution is required)*

HARVEST REPORTS, CLEARFELL PAYMENTS AND TIMING OF SAME
Partners were shown an example of a clearfell 'Harvest Report' that will be sent monthly once clearfell commences. Prior to clearfell partners are sent monthly 'Activity Report'. It was pointed out that logs harvested in January are paid for by the exporter at the end of February. The manager then has to check and reconcile all figures, have it signed off with the Statutory Supervisor, with disbursements made to partners within the first two weeks of March – along with the corresponding January Harvest Report and disbursement schedule.

ETS (EMISSIONS TRADING SCHEME)
William Dickie gave attendees an update regarding the ETS. The Government announced the ETS will be reviewed in late 2019 and there seems to be a general consensus within the industry that further upside in the price of carbon is likely given the Green influence in the coalition. The manager continues to monitor the market. Kaheka 2 has no further Liability Free NZUs remaining.

TAX
Jeff Whitlock from Markhams Accountants (the partnerships accountant) commented that harvest income in some cases can be spread back over the 3 previous years as well over the harvesting years. Jeff stressed that as everyone's situation is different partners should take accounting advice – sooner rather than later. *(note: Jeff can be contacted at Markhams Wanganui and Waverley)*

POST HARVEST OPTIONS
What happens after harvest is an often asked question and was a key discussion point at the 2017 RDNZ Harvest and Beyond conference.

Each winter the harvested area will be replanted from harvest receipts. This maintains and enhances the value of the land asset. To leave it unplanted would see the property revert to weeds and devalue significantly.

During the last year of the harvest, partners will need to vote re the future of the partnership and forest.

Options are:
1) To continue for another rotation for partners beneficiaries.
2) To sell the newly planted forest and dissolve the partnership.

If the majority wish to sell then the property will be listed for sale. Bearing in mind it will likely take time to find a buyer for the newly planted forest.

If the majority want to retain the asset for their beneficiaries, then those who want to retire from the partnership can offer their share of the land and newly planted forest for sale.

Firstly - to the other partners under the pre-emptive rights rule
Secondly - on the secondary market to new investors.
RD NZ facilitates the secondary market.

SECOND ROTATION
One of the concerns that partners have is, they do not want to commit their beneficiaries to future payments / share calls.

To overcome this, the suggestion is to leave a small portion of harvest income per ha in the partnership. This amount will vary from forest to forest. The funds will be invested in a bank account and drawn on to fund the next rotation.

Most forests are still holding a significant number of liability free NZUs – currently trading at $21.00 with many pundits advocating further upside in future years. These NZUs are in reality an unbudgeted bonus as they were not factored in to the original Cashflow and income from the sale of these could be used to fund the next rotation.

As well, because the land your forests are on is post 1989 the carbon sequestered during the next rotation could be leased thus giving another income stream to contribute to the holding costs.

In essence the next rotation would be fully 'pre-funded' with minimal harvest income having to be retained.

Pre-funding a forest is not new as we have already done it with two forests (Granity Forest Ltd and Woodleigh Forest Ltd) and has worked. A Wanganui forest at the end of harvest has adopted the model.

This 'pre-funding' arrangement would allow partners to leave a totally unencumbered, fully funded asset their beneficiaries – children, grand children or favourite charity. A great legacy.

If on the other hand the majority vote to sell the newly planted forest, then the pre-funding model would ensure the forest was funded until such time as a buyer can be found. Rather than sell immediately after harvest it may be better to wait until the new crop is well established – say age 5.
It was stressed the decision as to the future of your forest is still a few years away. However it is appropriate to discuss possible options.

Frank Haywood asked if a Motion to replant as harvesting progresses had been formalized.
Phil Gurney asked for a copy of the 3 year harvest forecast.

MEETING CLOSED: 3:00pm

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Chairman
Kaheka No 2 Forest Partnership 2018