



Forestlands (No.7) Limited (In Liquidation)

Liquidators' first report

Company No. 1156998

11 October 2018

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Glossary

Term	Definition
Associated parties	FNZ, FML, KFT
B shareholders	Investors who subscribed to the forestry shares with rights and restrictions attached to each share pursuant to the terms of the prospectuses issued by each of the Forestlands companies 2-20 below.
Company	Forestlands (No.7) Limited (In Liquidation)
F7	Forestlands (No.7) Limited (In Liquidation)
F2-20	Forestlands (No.2) Limited, Forestlands (No.3) Limited, Forestlands (No.4) Limited, Forestlands (No.5) Limited, Forestlands (No.6) Limited, Forestlands (No.7) Limited, Forestlands (No.8) Limited, Forestlands (No.9) Limited, Forestlands (No.10) Limited, Forestlands (No.11) Limited, Forestlands (No.12) Limited, Forestlands (No.14) Limited, Forestlands (No.15) Limited, Forestlands (No.16) Limited, Forestlands (No.17) Limited, Forestlands (No.18) Limited, Forestlands (No.19) Limited, Forestlands (No.20) Limited.
Forestlands Group companies or Forestlands Group	Forestlands companies F2-20 above
FML	Forestlands Marketing Limited
FNZ	Forestlands N.Z. Limited (In Liquidation)
KFT	Kearns Family Trust
NBS	Nelson Building Society

1.1 Introduction

Neale Jackson and Grant Robert Graham, Accredited Insolvency Practitioners, were appointed Joint and Several Liquidators of the Company by order of the High Court, Nelson on 6 September 2018 pursuant to Section 241(2)(c) of the Companies Act 1993 ('the Act') on the application of the Financial Markets Authority ('FMA').

We understand that prior to Liquidation a solvency certificate was signed by the director. We have not seen this but on the face of the draft financial statements the Company appears to be solvent.

The Liquidators and KordaMentha are independent of the Company. The Liquidators' declaration of independence is attached to this report at Appendix 1.

1.2 Restrictions

This report is not intended for general circulation, nor is it to be reproduced or used for any purpose other than that outlined above without our written permission in each specific instance. We do not assume any responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

We reserve the right (but will be under no obligation) to review this report and if we consider it necessary to revise the report in light of any information existing at the date of this report which becomes known to us after that date.

The tables in this report may contain roundings.



2. Executive summary

This page highlights key information about the Company at a high level. The following pages in this report explain the Company's position in detail, including how this key information has been calculated.

Available assets	<ul style="list-style-type: none">• F7 owned the Morepork forest and had a 8.28% interest in Tinui Stage 1 (as per section 5).• The draft statement of financial position for the Company in section 4 indicates the following assets as at 31 March 2018:<ul style="list-style-type: none">– Parties associated with Mr Kearns ('Associated Parties') owe F7 \$71,720 . This amount may change once our review is complete. We have started taking steps to recover this amount.– Cash totals \$687,041. This is mostly F7's share of the net proceeds from the forest sale.– Receivables of \$13,751. We understand this is amounts shareholders owe for their shares and/or administration fees. Details will be provided to each relevant shareholder.– Income tax overpaid of \$6,482.
Share of gross sale proceeds	<ul style="list-style-type: none">• F7's share of the gross sale proceeds was \$469,514 (shown in section 5).
Payments from gross sale proceeds	<ul style="list-style-type: none">• The following has been paid from the sale proceeds (as per section 6):<ul style="list-style-type: none">– Marketing and other fees to Associated Parties– Loans to Associated Parties– Commission for sale of forests, which has been paid to FNZ– Other costs• We are reviewing some of these payments.
Creditors	<ul style="list-style-type: none">• The Company's balance sheet records the following creditors (as per section 4 and Appendix 3):<ul style="list-style-type: none">– Accounts payable of \$8,883 (accounting fees and interest owing on tax pooling).– Income received in advance of \$21,407. This is amounts shareholders have paid in advance for administration fees. Details will be provided to each relevant shareholder.• Creditor claims may increase.
Shareholder payments	<ul style="list-style-type: none">• There are 757 B shares on issue. The net asset position at 31 March 2018 of \$748,704 (see section 4) equates to \$989 per share. However the balance sheet is a draft. It is not a final position on the Company's assets and liabilities. It assumes all assets can be recovered, including the amounts owed by Associated Parties. It is subject to further investigation and makes no provision for costs. Accordingly, this is not the amount each shareholder will receive.• We will be in a position to confirm the amount and timing of a first distribution to shareholders once the following matters are resolved:<ul style="list-style-type: none">– Receipt of shareholder confirmation certificates– Confirmation of creditor claims– Updating of the Company's share register, including (if necessary) obtaining court orders to update the share register for ownership changes– Confirming amounts outstanding from or paid in advance by shareholders• We are aiming to write to shareholders in late 2018 advising of the amount shareholders will receive.



2.1 The Company and the Forestlands Group of Companies

Forestlands (No.7) Limited (in Liquidation) ('F7') was incorporated on 17 August 2001, for the purpose of raising money from the public to fund the acquisition of forestry and land investments. F7 had interests in forests in Hawkes Bay and Wairarapa.

Between 1999 and 2011 a total of 18 companies were incorporated for the purpose of raising money from the public to fund the acquisition of forestry and land investment holdings in Southland, Hawkes Bay and the Wairarapa.

We were appointed liquidators of all the Forestlands Group companies, by the High Court. We have issued a report for each company.

Rowan Charles Kearns is the sole director of F7.

Investors were issued with B class shares at \$1,000 per share. The share register indicates that there are 757 shares on issue.

100% of the A class shares, which carry all the voting rights in the Company, are held jointly by Mr Kearns and Sharon Marie Kearns. We understand that they hold the shares as trustees of the Kearns Family Trust ('KFT'). Accordingly, the Kearns effectively control all the voting rights in the Company.

The other Forestlands Group companies have a similar ownership and directorship structure.

The Company (and the other Forestlands Group companies) was managed by Forestlands N.Z. Limited ('FNZ'). FNZ is also owned by KFT. Mr Kearns is the sole director of FNZ. We were appointed liquidators of FNZ by special resolution of shareholders, on 3 September 2018.

F7 entered into a number of contracts with Mr Kearns or parties associated with Mr Kearns:

- A Marketing Agreement with Forestlands Marketing
- An Administration Agreement with Forestlands N.Z. Limited ('FNZ')
- The prospectus refers to an employment agreement with Mr Kearns in respect of his directorship. We have not seen this.

These contracts obligate the Company to pay certain fees to Mr Kearns or parties associated with him.

2.2 The sale of the forest estates

In June 2015 a conditional sale and purchase agreement was entered into to sell all of the Forestlands forest estates for \$21,400,000. In June 2016 the sale and purchase agreement was varied and the purchase price was increased to \$23,500,000. The sale settled on 18 October 2016.

The sale and purchase agreement did not identify a sale price for each individual forest or, as a consequence, each Forestlands Group company's entitlement to the sale proceeds. We discuss this in further detail at section 5.

In early 2017 the Financial Markets Authority ('FMA') received a number of complaints from B shareholders because the proceeds of sale had not been distributed. It was agreed between the companies and the FMA that the balance of the proceeds (circa \$18 million) was to be paid into Anthony Harper Solicitors' trust account on the basis that the money could only be paid out with the FMA's consent or by Court Order.

Payments of circa \$5.5 million were made from the initial sale proceeds of \$23.5 million before the funds were transferred to Anthony Harper's trust account.

The Forestlands Group companies were legally obligated to make certain payments to parties associated with Mr Kearns (for example loan repayments and marketing fees). Other payments result in amounts owing from these parties to certain Forestlands Group companies. We discuss the payments in further detail at section 6. We discuss the amounts owing from parties associated with Mr Kearns in further detail at Appendix 4.

The Court subsequently ordered circa \$1.6 million to be paid to the IRD for Income Tax due by certain Forestlands Group companies. Accordingly there is now in aggregate circa \$16.7 million of the proceeds of sale remaining.

2.3 Previous work undertaken by KordaMentha

As outlined in our declaration of independence at Appendix 1, Mr Kearns engaged KordaMentha as an independent expert to assist with the FMA's enquiries:

- Mr Kearns engaged KordaMentha in April 2017 to undertake an independent review of the position of related Forestlands entities relating to the sale of the land and forests.
 - As part of this engagement we completed an allocation of the gross sale price of the forest sale to the individual Forestlands Group companies. This is outlined at section 5.
- Mr Kearns engaged KordaMentha a second time. This engagement was to undertake independent verification work around the disbursement of the sales proceeds from the land and forests that were held on trust by Anthony Harper.

Our findings from those engagements are outlined throughout this report.

4. Statement of financial position as at 31 March 2018 (draft)

We have been provided with draft financial statements as at 31 March 2018. The draft financial position of the Company, together with explanations of the balances is summarised below:

Assets	\$	Notes
Bank accounts	382	
Accounts receivable	13,751	We understand this is amounts owing from shareholders who were paying over time for their shares or administration fees. These amounts will need to be deducted from any distribution to shareholders who owe money, so that all shareholders are treated equally. Details will be provided to each shareholder of any amounts showing as owing in the Company's records.
Tax receivable	6,482	Resident Withholding Tax and tax overpaid from prior years.
Related party advances	71,720	Owing from parties associated with Mr Kearns ('Associated Parties'). We believe this amount maybe incorrect (see section 6). A breakdown of this calculation is shown at Appendix 4.
Trust account	686,659	The Company's share of the net proceeds of sale of the forests. The cash remaining at 31 July 2018 is detailed at section 6.
Total assets	778,994	
Liabilities	\$	
Accounts payable	8,883	Accounting fees and interest owing on tax pooling arrangements. Creditor claims may increase.
Income received in advance	21,407	Administration fees paid in advance by shareholders. We are currently investigating this balance. We will advise individual shareholders how these balances will be treated in the liquidation.
Total liabilities	30,289	
Net assets	748,704	

The Company is solvent based on this balance sheet. There are 757 B shares on issue. The net asset position equates to \$989 per share.

However, the balance sheet is a draft. It is not a final position on the Company's assets and liabilities. It assumes all assets can be recovered, including the amounts owed by Associated Parties. We are currently investigating the Company's assets and liabilities. We will provide an updated statement of assets and liabilities in future reports.

Shareholders should not assume that the Net assets value shown above will be the amount available for distribution to them.

Future updates will also show the estimated amount available for distribution to shareholders.



5. Valuation of forest estates and allocation of gross sale price

The forest estates were all sold for one sum of money, \$23.5 million. The sale agreement split the sale price between land and the forests (i.e. the trees) but did not allocate values to the individual forest estates and a valuation of the forest estates was not obtained at the time of sale.

As a result of this, the value for which each Forestlands Group company's forests were sold cannot be calculated based on the sale and purchase agreement.

As part of our April 2017 engagement we undertook an exercise to obtain sufficient independent advice to allocate the gross sale price to the individual Forestlands Group companies. This would then determine each individual company's share of the net sale proceeds.

To do this we:

1. Commissioned valuations of each forest as follows:
 - a) Telfer Young (Registered Valuers) to value the land of F2-20 as at June 2015 (the date of the original sale agreement) and as at June 2016 (the date of the variation). Telfer Young valued total land rights at June 2015 at \$5.575 million and June 2016 at \$6.12 million.
 - b) Interpine Group Limited ('Interpine') to value the standing trees of F2-20 as at June 2015 and at June 2016. Interpine valued the standing trees at \$15.59 million at June 2015 and \$17.5 million at June 2016.
2. Allocated the valuations of each forest to the relevant Forestlands Group companies.
3. Allocated the gross sale proceeds to each Forestlands Group company based on each company's proportionate share of the aggregate land and forest valuation.

We discuss these steps in detail below.

Step 1: Valuations of each forest

The forest assets were valued at \$23,659,139 at 30 June 2016 (the date they were sold):

Forest Name	Land valuation		Forest valuation		Total value
	\$	%	\$	%	\$
Driscoll Road	340,000	5.56%	1,121,845	6.40%	1,461,845
Fence Post	315,000	5.15%	236,363	1.35%	551,363
Fox	435,000	7.11%	678,514	3.87%	1,113,514
Homestead	395,000	6.45%	574,674	3.28%	969,674
Morepork	245,000	4.00%	134,952	0.77%	379,952
Ngahape	410,000	6.70%	2,584,742	14.74%	2,994,742
Old Shed	385,000	6.29%	726,326	4.14%	1,111,326
Pakowhai	245,000	4.00%	205,079	1.17%	450,079
Pukeko	320,000	5.23%	53,130	0.30%	373,130
Putorino	450,000	7.35%	2,095,757	11.95%	2,545,757
Riverina	425,000	6.94%	3,121,612	17.80%	3,546,612
Tinui Stage 1	250,000	4.08%	662,135	3.78%	912,135
Tinui Stage 2	535,000	8.74%	1,899,166	10.83%	2,434,166
Tinui Stage 3	290,000	4.74%	1,144,894	6.53%	1,434,894
Tyneholm	465,000	7.60%	836,390	4.77%	1,301,390
Waipukurau	210,000	3.43%	729,659	4.16%	939,659
Woodslea	405,000	6.62%	733,901	4.18%	1,138,901
Total	6,120,000	100%	17,539,139	100%	23,659,139
<i>Percentage of total value</i>	25.87%		74.13%		100%

5. Valuation of forest estates and allocation of gross sale price (cont.)

The total valuation is very close to the sale price of \$23,500,000 although the sale and purchase agreement split the value between land and forests slightly differently. This is illustrated below:

Forest name	Land \$	Split %	Forest \$	Split %	Total value \$
Valuation	6,120,000	25.87%	17,539,139	74.13%	23,659,139
Sale and purchase agreement	6,603,500	28.10%	16,896,500	71.90%	23,500,000

The valuations support the conclusion that the assets (in aggregate) were sold for what they were worth on the date they were sold.

Step 2: Allocation of valuations of each forest to F7

The Forestlands Group companies had different interests in different forests. Some forests had multiple owners.

F7 owned the Morepork forest and had a 8.28% interest in Tinui Stage 1. The value of these holdings on 30 June 2016 (the date they were sold) was \$455,477 as detailed below:

Forest name	Holding %	Share of land valuation \$	Share of forest valuation \$	Total \$
Tinui Stage 1	8.28%	20,700	54,825	75,525
Morepork	100.00%	245,000	134,952	379,952
		265,700	189,777	455,477
Share of total valuation		4.34%	1.08%	1.93%

Each company's proportionate share of the land and forest valuations is detailed at Appendix 5.

The allocation includes a number of properties which form the Tinui Stage 1 forest that FNZ owned. FNZ held this forest on trust for F2 to F17. The forest was purchased by FNZ on behalf of F2 to F17 using the net proceeds of sale of carbon credits owned by F2 to F17, under the Emissions Trading Scheme ('ETS'). We refer to this as the ETS Forest. As noted above F7 owned 8.28% of this forest.

Step 3: Allocation of gross sale proceeds to F7

We have allocated the gross sale proceeds to each Forestlands Group company based on each company's proportionate share of the land valuation and the forest valuation.

F7's share of the gross sale proceeds is \$469,514 (i.e. F7 is entitled to \$469,514 of the \$23.5 million sale price):

Forest name	Holding %	Share of land sale value \$	Share of forest sale value \$	Total sale value \$
Tinui Stage 1	8.28%	22,335	52,816	75,151
Morepork	100.00%	264,356	130,007	394,363
		286,691	182,823	469,514
Share of total sale value		4.34%	1.08%	2.00%

F7's proportionate share of the total gross sale proceeds is slightly higher than its proportionate share of the total valuations. This is because of the difference in the split between the land and forests in the sale and purchase agreement compared to the aggregate valuations.

Each company's proportionate share of the total gross sale proceeds is detailed at Appendix 6.

This allocation is the basis upon which each company's entitlement to the net proceeds on hand has been calculated, as discussed at section 6 below.

Where forests have been harvested, we are investigating how the harvesting income was utilised.

6. Deductions made from gross sale proceeds

6.1 Deductions made from the total gross sales proceeds

We have reviewed the financial accounts prepared by the Companies' accountants to identify the payments that were made from the gross proceeds of \$23.5 million. These are summarised below:

		\$	Comments
Gross sale proceeds		23,500,000	Money received from selling the land and forests.
Rates and legal fees	(101,705)		Rates owed on the land sold and legal fees for the sale. Rates have been allocated to each specific company. Legal fees have been spread evenly across each company.
Income tax paid	(1,940,994)		Income tax owed by some companies, which we allocate to the specific company. This includes the \$1.6 million mentioned on page 6.
Harvest expenses	(31,180)		Harvest expenses owed by some companies, which we allocate to the specific company.
Expenses		(2,073,878)	Expenses that the Forestlands Group companies needed to pay from the sale proceeds.
Money paid to Forestlands Group companies		(881,982)	Money paid out directly to the Forestlands Group companies.
Loan repayments to FNZ	(906,296)		Money that the Forestlands Group companies owed FNZ.
Entitlements under marketing agreements	(1,700,000)		Money paid to FNZ and other entities associated with Mr Kearns, claimed to be owed under various agreements.
Money owed to FNZ (and related parties)		(2,606,296)	
Interest (net of fees)		421,622	Interest earned on the cash, which needs to be allocated to each Forestlands Group company.
Money loaned to FNZ		(1,630,468)	Money that FNZ and related entities owe the Forestlands Group companies.
Cash remaining		16,728,997	

Money loaned to FNZ

- \$1.63 million of the sale proceeds was 'advanced' to FNZ:

	Total
Loan to FNZ	(530,000)
FNZ contribution to legal fees	3,799
Advance to FNZ	(970,260)
Advance to FNZ from early deposit released	(126,316)
Advance to FNZ - Payments on behalf	(7,691)
	(1,630,468)

- FNZ or other entities associated with Mr Kearns owe this money back to the Forestlands Group companies.



6. Deductions made from gross sale proceeds (cont.)

- In the draft financial accounts, the advances and loan to FNZ have been allocated equally across all of the Forestlands Group companies. These loans are documented by brief loan agreements.
- The advance to FNZ of \$970,260 has resulted primarily from NBS being paid \$1.875 million from the settlement proceeds to repay loans it had made to FNZ. FNZ had on-lent approximately \$905k of the money it borrowed from NBS to Forestlands Group companies. The payment of \$1.875 million to NBS has been treated as repayment of these loans with the balance of \$970k being booked as an advance to FNZ:

	\$	\$
FNZ Loans to Forestlands Group companies	852,715	
Accrued Interest	53,581	
		906,296
Paid to NBS		(1,875,000)
Overpayment treated as loan to FNZ		(968,704)
Less FNZ tax paid from sale proceeds		(1,556)
Total to be treated as loan to FNZ		(970,260)

- F7 was not one of the companies to which FNZ had on-lent money.

Entitlements under marketing agreements

- Each Forestlands Group company entered into a marketing agreement under which a marketing company (an entity associated with Mr Kearns) undertook marketing services. (The marketing agreement was annexed to each company's prospectus).
- The agreements vary, but the amounts payable to the marketing company under each marketing agreement included a percentage of the net proceeds from the harvesting of the forest(s) and/or from the sale of the land.
- An amount of \$1.7 million was paid from the sale proceeds to KFT. This was allocated as marketing entitlements against each of the Forestlands Group companies based on their respective marketing agreements and the allocation of the sale proceeds.

- As part of our February 2018 engagement we obtained legal advice on the marketing entitlements. Based on this advice we believe the marketing fees were overpaid by approximately \$40k. The overpayment attributable to F7 is \$1,451. Our preliminary legal advice is:
 - The entitlements should be calculated on the net proceeds of sale after deducting commission. FNZ has been charged commission on the sale of the forest assets. It has in turn on-charged the Forestlands Group companies; and
 - The entitlements have been claimed in respect to the ETS forests. The marketing companies were unlikely to be entitled to fees on the sale of the ETS forests.



6. Deductions made from gross sale proceeds (cont.)

6.2 Deductions made from F7's share of the gross sale proceeds

Summarised in the table below are the deductions made from F7's share of the gross sale proceeds and the amount remaining available at 31 July 2018:

	\$	Comments
Gross sale proceeds	469,514	F7's share of the sale proceeds per page 9.
Rates and legal fees	(4,483)	Rates owed on the land sold and legal fees for the sale. Rates have been allocated to each specific company. Legal fees have been spread evenly across each company.
Income tax paid (including interest)	-	
Harvest expenses	-	
Expenses	(4,483)	
Money paid to Forestlands companies	(55,716)	The financial accounts show this money was released to F7 and used by F7. We are investigating what it was used for.
Loan repayments to FNZ	-	
Entitlements under marketing agreements	(8,833)	F7 was required to pay FML marketing fees of 5% of the sale value of the forest (i.e. the trees) plus GST. As advised at section 6, based on our preliminary legal advice we believe F7 has overpaid this by \$1,451.
Money owed to FNZ (and related parties)	(8,833)	
Interest (net of fees)	13,573	Interest on the sale proceeds has been allocated to each Forestlands Group company. We are reviewing this allocation and expect it may change.
Money loaned to FNZ	(90,582)	F7's notional share of the money loaned to Mr Kearns and Associated parties, which needs to be repaid. The money has been spread evenly across all of the Forestlands Group companies rather than in proportion to each company's interest in the proceeds. We are considering whether this is appropriate.
Intercompany Advances (Between Forestlands Group companies)	363,184	Money was advanced between the Forestlands Group companies. These advances have since been repaid from the sale proceeds. F7 was owed net \$363,184 from other Forestlands Group companies.
Balance at 31 March 2018 (as per financial position at section 4)	686,657	
Further Transactions to 31 July 2108	-	
Tax Payments incl interest	-	
Intercompany advances (between Forestlands Group companies)	-	
Net interest received	2,291	As advised above, we are reviewing the interest allocation and expect this may change.
Cash remaining at 31 July 2018	688,948	

Proposed conduct of liquidation

The liquidation will involve:

1. Completing the process as outlined in our letter to shareholders and then paying an interim distribution to shareholders as soon as possible.
2. Finalising our investigation into the transactions between the Forestlands Group companies and Associated Parties and recovering money from Associated Parties.
3. Finalising the financial accounts and tax position as all of the Forestlands Group companies appear to be solvent.

Creditors meeting

The Liquidator proposes pursuant to Section 245 of the Companies Act 1993 to dispense with the meeting of creditors. This decision has been made on the basis that it would add unnecessary costs to the liquidation.

However if creditors wish to have a meeting then written notice should be sent to the Liquidators' offices within 10 working days of receiving this notice.

Please note that, pursuant to Section 314 of the Act, creditors are advised that at any time in the course of the liquidation, the Liquidators will, at the request in writing of any creditor or shareholder, call a meeting of creditors for the purpose of appointing a Liquidation Committee.

Director's statement on causes of the Company's failure

In a liquidation we ask the company's director(s) to provide a statement outlining the causes of the company's failure. Mr Kearns has provided a statement which we have posted on our website. The comments in the director's statement are his own. The comments are not endorsed by the Liquidators.

Liquidators' remuneration

The Liquidators will be paid for their work by charging fees on an hourly basis, according to the number of hours they and their staff actually spend working on the assignment.

The High Court has approved the following rates for this assignment:

Position	Rate per hour \$
Partner	550
Executive Director, Director, Associate Director	485
Manager	385
Executive analyst	315
Senior business analyst	250
Business analyst	190
Support staff	90

Completion of liquidation

It is too early to assess the date by which the liquidation will be completed.

Should you have any queries regarding the liquidation of the Company, please do not hesitate to contact us on:

Email: forestlands@kordamentha.co.nz

Phone: +64 9 307 7865



Declaration of Independence

In accordance with the Code of Professional Conduct of the Restructuring, Insolvency and Turnaround Association of New Zealand

Declaration of Independence

- Neale Jackson and Grant Graham, Joint Liquidators and Accredited Insolvency Practitioners, confirm they have undertaken a proper assessment of the risks to Independence associated with their appointment over the Company in accordance with the law, the Code of Professional Conduct ('the Code') and the applicable professional standards;
- The Liquidators have evaluated the significance of any real or potential risk to Independence and taken such action as is necessary to preserve their Independence; and
- In all cases, the Liquidators are not otherwise aware of any impediments to taking the appointment.

Declaration of Relationships

1. Circumstances of Appointment

- The Liquidators were introduced to F7's sole director (Mr Kearns) by law firm, Anthony Harper. KordaMentha undertook two engagements (as detailed below) under Anthony Harper's instructions, prior to being appointed liquidators of F7 (as detailed in point 3 below).
- No matters were discussed prior that presented a conflict that would prevent the Liquidators from undertaking the appointment.
- On 4 September 2018, the Court issued orders (as attached) for Neale Jackson and Grant Graham to be granted leave to act as liquidators of F7 (pursuant to s280 and s286 of the Companies Act 1993).

2. Relevant Relationships (excluding professional services to the Company)

- The Liquidators set out professional services provided to Mr Kearns by KordaMentha in the preceding two years;
 - Mr Kearns engaged KordaMentha on or about 19 April 2017 to undertake an independent review of the position of related Forestlands entities relating to the historical sale of land and forests. Our report was issued on 15 December 2017.

- On or about 8 February 2018, Mr Kearns engaged KordaMentha a second time. This engagement was to undertake independent verification work around the disbursement of the sales proceeds from the land and forests that was held on trust by Anthony Harper. Our report was issued on 26 June 2018.

- The Company (and the other Forestlands Group companies) was managed by Forestlands N.Z. Limited ('FNZ'). We were appointed liquidators of FNZ by special resolution of shareholders, on 3 September 2018.
- The Liquidators were appointed Liquidators of associated companies Forestlands 2-20 Limited, on 6 September 2018.

3. Prior Professional Services to the Insolvent

None

4. No Other Relevant Relationships to Disclose

- There are no other relevant relationships that the Liquidators should disclose.

Declaration of Indemnities and Upfront Payments

5. The Liquidators disclose:

The Liquidators did not receive an indemnity or upfront payment from any party in relation to the Liquidation of F7.

Dated: 27 September 2018

Signed:



Neale Jackson
Joint Liquidator



Grant Graham
Joint Liquidator



Section 280 of the Companies Act 1993

IN THE HIGH COURT OF NEW ZEALAND
NELSON REGISTRY

CIV-2018-442-49

I TE KŌTI MATUA O AOTEAROA
WHAKATŪ ROHE

Under Part 19 of the High Court Rules and sections 280 and 286 of the Companies Act 1993

In the matter of an application concerning:

FORESTLANDS (NO.2) LIMITED a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner

And

FORESTLANDS (NO.3) LIMITED a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner

Continued overleaf

In the matter of an application by **NEALE JACKSON** and **GRANT ROBERT GRAHAM** of Auckland, both Chartered Accountants for an order that they both be permitted to act as liquidators

Applicants

COURT ORDERS UNDER SECTION 280 OF THE COMPANIES ACT 1993

Dated: 4 September 2018

B U D D L E F I N D L A Y
Barristers and Solicitors
Auckland

Solicitors Acting: **D T Broadmore / H C M S Snell**
Tel 64-9-358 7031 Fax 64-9-363 0731 PO Box 1433 DX CP24024 Auckland
E-mail david.broadmore@buddlefindlay.com / hugo.snell@buddlefindlay.com

- And **FORESTLANDS (NO.4) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.5) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.6) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.7) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.8) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.9) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.10) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.11) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.12) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.14) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.15) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.16) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.17) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.18) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.19) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner
- And **FORESTLANDS (NO.20) LIMITED** a company having its registered address at 205a High Street, Motueka, 7120, New Zealand and which carried on business as a forest owner

Section 280 of the Companies Act 1993

COURT ORDERS UNDER SECTION 280 OF THE COMPANIES ACT 1993

1. The without notice originating application made by **NEALE JACKSON** and **GRANT ROBERT GRAHAM** on the 22nd day of August 2018 was determined by the Honourable Associate Judge Matthews on the 4th day of September 2018.
2. The determination was made without a hearing.
3. The following orders were made:
 - (a) the applicants are granted leave to act as liquidators of:
 - (i) Forestlands (No.2) Limited;
 - (ii) Forestlands (No.3) Limited;
 - (iii) Forestlands (No.4) Limited;
 - (iv) Forestlands (No.5) Limited;
 - (v) Forestlands (No.6) Limited;
 - (vi) Forestlands (No.7) Limited;
 - (vii) Forestlands (No.8) Limited;
 - (viii) Forestlands (No.9) Limited;
 - (ix) Forestlands (No.10) Limited;
 - (x) Forestlands (No.11) Limited;
 - (xi) Forestlands (No.12) Limited;
 - (xii) Forestlands (No.14) Limited;
 - (xiii) Forestlands (No.15) Limited;
 - (xiv) Forestlands (No.16) Limited;
 - (xv) Forestlands (No.17) Limited;
 - (xvi) Forestlands (No.18) Limited;
 - (xvii) Forestlands (No.19) Limited; and
 - (xviii) Forestlands (No.20) Limited,(together, the "**Forestlands Entities**").

- (b) that, in the event the applicants are appointed as liquidators, then:
- (i) copies of the originating application and sealed orders on the originating application are to be served on all known creditors of the Forestlands Entities at the same time and in the same manner as any notice by the liquidators of the first creditors' meeting called in accordance with section 243 of the Companies Act 1993 would be served;
 - (ii) any creditor of the Forestlands Entities is granted leave to apply to the Court within ten working days of such service to set aside the applicants' appointment as liquidators; and
 - (iii) the applicants' solicitor/client costs of this application be an expense incurred by the applicants in carrying out their duties as liquidators of the Forestlands Entities.

By the Court:

A. Nicholson

(Deputy Registrar)

Sealed this 7th day of September 2018

Creditors	Address
Anthony Harper	6/66 Wyndham St, Auckland, 1010
Inland Revenue Department	PO Box 39010 Wellington Mail Centre, Lower Hutt 5054
Moore Stephens Markhams	PO Box 24324 Wellington 6142
Thompson Daly & Co	PO Box 102 Nelson 1040

In addition to the above known creditors, Leaders Real Estate (1987) Ltd ('Leaders') has lodged unsecured creditor claims against each Forestlands Group company in respect of commission on the sale of the forests. Leaders had an agency agreement with FNZ only (in respect of which it obtained judgment in March 2018). It has elected to lodge an unsecured creditor claim against not only FNZ but also F2 to F20.

F2 to F20 have paid their share of commission on the forest sale to FNZ. We are seeking legal advice in respect of Leaders' ability to claim against the Forestlands Group companies.



Historically there have been transactions between the Forestlands Group companies and Associated Parties such as marketing fees, administration fees, directors fees and advances.

In aggregate, FNZ owes the Forestlands Group companies \$1.75 million (based on the draft financial accounts).

As part of our previous engagements, we reviewed the Associated Party transactions from 1 April 2015 to 31 March 2018 and test checked these to workpapers and supporting documents.

We noted on page 12 that \$90,582 of F7's sale proceeds was loaned to (and is repayable by) Associated Parties. In addition, there are other transactions.

The draft financial accounts as at 31 March 2018 show that FNZ owes F7 \$71,722. Interest accrues on these advances. This, together with the aggregate amount owing from FNZ to Forestlands Group companies is summarised below:

	Aggregate \$	F7 \$
Money loaned to FNZ from sale proceeds	1,630,468	90,581
Expenses paid on behalf of FNZ	252,480	-
Interest	302,083	13,339
Fees overpayments	42,004	1,800
Administration fees paid in advance	241,501	-
Marketing and directors fees capitalised (FY15 and earlier)	(81,337)	-
Other advances and repayments	61,158	-
Underpayment of marketing entitlements	(30,240)	(1,680)
Directors' indemnity	207,000	11,500
Directors' fees FY18	(333,850)	(17,250)
Administration fees FY18	(248,400)	(20,700)
Sales commission claimed by FNZ	(293,749)	(5,869)
Total receivable as at 31 March 2018	1,749,115	71,721

- All of the Associated Party balances have been reclassified as advances to FNZ in the draft Financial Statements, however we believe some of the balances will relate to other parties. We are undertaking further investigations to determine the correct entity to pursue for recovery of the advances.
- Administration fees and Director's fees have been claimed for FY17 and FY18. The forest sale settled on 18 October 2016. We are investigating this further to determine the reasonableness of the fee claims.
- In January 2017, Mr Kearns was paid \$207k under his Directors' Indemnities on account of costs anticipated to be incurred as a result of the FMA enquiries and subsequent proceedings. These have been recorded as a receivable from FNZ. We are investigating this transaction.
- The balances will need to be adjusted for the overpayment of marketing entitlements as discussed at section 6 and any other matters arising from our investigations.



Allocation of valuation of forest estates

Summarised in the table below is each company's proportionate share of the land and forest valuations:

Entity	Land valuation allocation	%	Forest valuation allocation	%	Total	%
F2	483,325	7.90%	884,924	5.05%	1,368,249	5.78%
F3	422,350	6.90%	779,853	4.45%	1,202,203	5.08%
F4	452,525	7.39%	724,930	4.13%	1,177,455	4.98%
F5	411,900	6.73%	619,434	3.53%	1,031,334	4.36%
F6	402,475	6.58%	772,609	4.41%	1,175,084	4.97%
F7	265,700	4.34%	189,777	1.08%	455,477	1.93%
F8	331,975	5.42%	281,322	1.60%	613,297	2.59%
F9	337,000	5.51%	98,155	0.56%	435,155	1.84%
F10	669,250	10.94%	2,370,694	13.52%	3,039,944	12.85%
F11	302,292	4.94%	978,724	5.58%	1,281,016	5.41%
F12	457,767	7.48%	1,620,113	9.24%	2,077,880	8.78%
F14	302,292	4.94%	978,724	5.58%	1,281,016	5.41%
F15	222,050	3.63%	761,574	4.34%	983,624	4.16%
F16	225,575	3.69%	1,595,436	9.10%	1,821,011	7.70%
F17	225,575	3.69%	1,595,436	9.10%	1,821,011	7.70%
F18	205,000	3.35%	1,292,371	7.37%	1,497,371	6.33%
F19	205,000	3.35%	1,292,371	7.37%	1,497,371	6.33%
F20	197,950	3.23%	702,691	4.01%	900,641	3.81%
Total	6,120,000	100.00%	17,539,139	100.00%	23,659,139	100.00%



Allocation of gross sale proceeds

Summarised in the table below is each company’s proportionate share of the gross sale proceeds based on each company’s proportionate share of the land valuation and the forest valuation:

Entity	Land - sale value allocation	%	Forest sale value allocation	%	Total	%
F2	521,509	7.90%	852,501	5.05%	1,374,010	5.8%
F3	455,717	6.90%	751,279	4.45%	1,206,996	5.1%
F4	488,276	7.39%	698,368	4.13%	1,186,644	5.0%
F5	444,441	6.73%	596,738	3.53%	1,041,180	4.4%
F6	434,272	6.58%	744,301	4.41%	1,178,572	5.0%
F7	286,691	4.34%	182,823	1.08%	469,514	2.0%
F8	358,202	5.42%	271,014	1.60%	629,216	2.7%
F9	363,624	5.51%	94,559	0.56%	458,183	1.9%
F10	722,123	10.94%	2,283,831	13.52%	3,005,954	12.8%
F11	326,174	4.94%	942,863	5.58%	1,269,037	5.4%
F12	493,932	7.48%	1,560,752	9.24%	2,054,683	8.7%
F14	326,174	4.94%	942,863	5.58%	1,269,037	5.4%
F15	239,593	3.63%	733,670	4.34%	973,262	4.1%
F16	243,396	3.69%	1,536,978	9.10%	1,780,375	7.6%
F17	243,396	3.69%	1,536,978	9.10%	1,780,375	7.6%
F18	221,196	3.35%	1,245,018	7.37%	1,466,214	6.2%
F19	221,196	3.35%	1,245,018	7.37%	1,466,214	6.2%
F20	213,589	3.23%	676,945	4.01%	890,533	3.8%
Total	6,603,500	100.00%	16,896,500	100.00%	23,500,000	100%

