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# FREE BIRD INSTITUTE LIMITED

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Offer Document

17 JANUARY 2017

Offer document for the compliance listing of 2,000,000 ordinary Class A shares on the South Pacific Stock Exchange.

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### *Investors Notice*

- This Offer Document details the compliance listing of 2,000,000 ordinary shares in Free Bird Institute Limited (“FBIL” or “the Company”) on the South Pacific Stock Exchange (“SPSE”).
- All ordinary shares are fully paid and equally ranked in regard to voting, dividends and in liquidation.
- The Company’s founding shareholders have provided an undertaking to divest shares once the Company is listed, with the price that shares are to be initially offered expected to be at \$1.94 per share. This price was determined by the founding shareholders after considering independent valuation advice.
- FBIL is expected to be listed on the SPSE on the 1<sup>st</sup> February, 2017.

#### DISCLAIMER – RESERVE BANK

This document has been registered with the Reserve Bank in accordance with the Companies Act 2015 (Fiji).

The Reserve Bank accepts no liability for any statement contained in or information omitted from this document.

#### DISCLAIMER – SOUTH PACIFIC STOCK EXCHANGE LIMITED

This document has been lodged with the South Pacific Stock Exchange (SPSE). The Company making the offer under this document (“Free Bird Institute Limited”) is listed on the SPSE. The securities offered under this document have been accepted for quotation by the SPSE.

The SPSE accepts no liability for any statement contained or information omitted from this document.

# 1 Message from the Chairman

30<sup>th</sup> December, 2016

Dear Investor,

I have great pleasure in presenting this Offer Document for the listing of Free Bird Institute Limited (FBIL) on the South Pacific Stock Exchange (SPSE).

Listing FBIL on the stock exchange was an objective set when FBIL was first formed, and this has remained a key long-term business and career goal for me personally.

This business has now been operating in Fiji for over a decade and we have seen impressive growth during that time. Indeed, our campuses are now very a much part of the landscape in the cities of Nadi and Lautoka and our international students are a familiar sight in these cities.

Throughout these years, we have never lost sight of our core mission which is to not only provide international quality education to our students but also to contribute strongly to their personal development, giving them valuable experience and life skills to succeed in their later careers. We are very proud to say that we have successfully achieved this for several thousand students who are now our global ambassadors. It has been in many ways a personal journey for the many members of the FBIL team - the directors, management and teachers - and we would like to share it with you and the wider community.

The listing of FBIL on the SPSE gives the people of Fiji and others abroad, the opportunity to be a direct part of our business by becoming shareholders. Listing also benefits the Company and its shareholders in various ways, some of which includes:

- Improved corporate profile – Listing will enhance the Company's profile to its stakeholders adding value to our marketability to our most important customers, our international students. It also reflects well on our commitment to a well-run, ethically responsible institution.
- Access to capital – Listing provides an efficient platform for FBIL to raise capital in the future to finance future growth and other opportunities.
- Succession planning – Building our shareholder base will help ensure the Company's long-term survival and reduce dependence on the founding shareholders.
- Tax Incentives – In addition, listing provides a number of very attractive tax incentives for the Company and shareholders including a significantly lower corporate tax rate (10% instead of 20%) tax exemptions on dividends and transfer of shares.

Investing, however, is not without risk. As with any business, FBIL is exposed to various risks such as the threat of an economic downturn, foreign exchange risks, increased competition, regulatory changes and others. These risks, which are explained further in this Offer Document, may mean that the shares of the Company might not meet your individual investment objectives. I therefore encourage you to read this Offer Document carefully and consult your licensed broker or investment adviser representative before making any decision to invest in the Company.

On behalf of the Board of Directors, I hope to welcome you on-board as a fellow shareholder.

Yours faithfully,



Hiroshi Taniguchi  
**Chairman and Chief Executive Officer**

## 2 Business Overview

### *Background*

Free Bird Institute Limited ("FBIL" or "the Company") runs the first English-only language institute ("the Free Bird Institute" or "the Institute") in Fiji, catering to foreign students wishing to learn English.

FBIL was the brainchild of Mr. Hiroshi Taniguchi, a Japanese businessman and investor in Fiji, who sought to address the strong and growing need for English language tuition amongst the native Japanese population. Seeing Fiji as an exotic and ideal location for this, Mr. Taniguchi set out to create the Institute in his adopted homeland.

Operations commenced in 2006 under the trading name "Namaka Public Free Bird Institute" before FBIL was incorporated in 2010. Today, the Institute is recognised by the Ministry of Education and maintains two campuses, in Namaka, Nadi and in Lautoka.

To cement the inflow of Japanese students, who currently make up 98% of FBIL's student roll, Mr. Taniguchi established the South Pacific Free Bird Co Ltd ("SPFB" or "the Parent Company") operating out of Shinjuku, Tokyo. SPFB has since actively marketed FBIL's services as an English language institute to Japan and other Asian countries.

### *South Pacific Free Bird Co., Ltd*

SPFB was incorporated on the 2<sup>nd</sup> of March, 2004 in Japan. With its registered office located at the Airmans Building, Ichigaya, 2-6-4Ichigayatamachi, Shinjuku, Tokyo, SPFB undertakes to act exclusively for FBIL in the following:

- As a travel agency based on the Travel Agent Act (Japan)
- As an agent for the in-house insurance scheme run by FBIL
- Managing, counselling and providing orientation and other services to, students studying English abroad

## English Language Training

### *Total Immersion Approach*

Foreign students learn English using a "total immersion" approach. This approach involves the learner spending time in an environment operating solely in the target language. The learner therefore learns the language in its natural environment and is able to see and hear expressions, words and phrases in context, along with physical movements, facial expressions and tone of voice. Coupled with traditional classroom-based learning, this approach is a highly-effective method of learning.

At the same time, FBIL seeks to provide students with more than English language skills, by equipping them with important life skills developed from daily exposure in a new country with diverse cultures and experiences.

The ultimate aim is to develop students who are well-equipped to communicate, live and work successfully in an English-speaking country.

FBIL achieves this by "immersing" students in the Fiji environment.

- For the duration of their studies, students are based entirely in Fiji where the medium of communication is English.
- FBIL provides homestay accommodation to students. Students live with their local hosts and experience the diverse culture, traditions and hospitality that Fiji is well known for.

- On campus, there is a strictly-enforced “English-only” policy. Students are not allowed to speak their mother tongue.
- All classroom courses are taught solely in English by adept teachers, each of whom holds an English teaching license from the Fiji Teachers Registration Board (“FTRB”).

### *English Language Courses*

Programs offered vary depending on age and are assimilated to incorporate and encourage the everyday learning and use of the English language.

The Institute’s focus is on students above 16 years of age while younger students are enrolled into the local school located in the same compound as the Institute’s Nadi campus. This conveniently allows families to study English together in one location.

In addition, high school students may also attend Ba Provincial Free Bird Institute, a Lautoka high school managed by FBIL.

At the Institute, students can enroll for programs ranging from two weeks to 50 weeks in duration. Prior to commencement of learning, students sit a placement test, the results of which are used to stream students to each of the core language skills (Reading, Writing, Grammar and Communication) into seven streams:

- Basic Beginner
- Beginner
- Intermediate
- Upper Intermediate
- Post Intermediate
- Pre-advanced
- Business

Classes are structured according to the students’ proficiency levels. Since 2009, FBIL has adopted into their curriculum - the best-selling “face2face” textbook series developed by the University of Cambridge in the UK for adults and young adults.

### *Management of Ba Provincial Free Bird Institute*

In 2013, FBIL expanded its operations to assisting with the management of a local high school in Fiji owned by Ba Provincial Secondary School Management (BPSSM). The school, renamed Ba Provincial Free Bird Institute, is managed on behalf of FBIL’s parent company in Japan South Pacific Free Bird (SPFB) which signed an MOU to manage the school with BPSSM.

The arrangement allows FBIL to place Japanese students into a culturally diverse local high school which has a multi-national roll including students from Fiji, Nauru, Japan and Korea.

## **Other Services**

### *Accommodation*

Students have the option of a homestay with host families or living in the dormitories maintained by FBIL in each of its campuses.

In partnership with over 300 local families within Nadi and Lautoka, international students are offered homestay accommodation with host families where students experience the diverse culture, traditions and hospitality that Fiji is well known for. Host families are carefully vetted by FBIL to appropriate standards

and whilst most meals are provided by the host family for the duration of stay, the Institute's campuses and dormitories are located close to public amenities including restaurants and shopping centers, for the convenience of students.

The dormitories are self-contained and can house a total of 216 students.

### *Student Support*

In addition, FBIL provides a range of other services for students including:

- General counselling by trained counsellors for all student issues including school, personal, host family and other matters.
- General familiarisation and tour of key facilities in Nadi such as phone outlets, money exchange services, shopping outlets and public transport.
- Arrangement of medical and other services as needed by students.
- Arrangement of visas and other documents for travel to Fiji.
- Follow-up with, and monitoring of, homestay conditions.

### *In-house Insurance Scheme*

In February 2016, FBIL established its own in-house insurance scheme. The scheme is exclusively offered to Japanese students and covers their travel, medical and life insurance for the duration of their studies.

Cover Options:	Plan A	Plan B	Plan C
Accidental death	¥ 10,000,000	¥ 10,000,000	¥ 5,000,000
Death by critical illness	¥ 10,000,000	¥ 10,000,000	¥ 5,000,000
Medical & travel insurance for family	Unlimited	¥ 20,000,000	¥ 10,000,000
Physical impediment	¥ 10,000,000	¥ 10,000,000	¥ 5,000,000
Damage in personal belongings	¥ 200,000	¥ 100,000	¥ 50,000
Delay of checked-in luggage (over 6 hrs.)	¥ 100,000	¥ 100,000	¥ 100,000
Aircraft delay (over 6 hrs.)	¥ 20,000	¥ 20,000	¥ 20,000
Dental medical services	¥ 100,000	Nil	Nil

- Travel insurance cover travel between Japan and Fiji

#### Exclusions:

- Travel to other countries including stopovers and temporary visits to the country(ies) of residence.
- Life, medical, property coverage outside of Fiji.

With this new scheme, FBIL's Japanese student base enjoy several significant benefits over previous arrangements held with a US firm engaged by FBIL which include:

- Convenience of having an in-country insurance provider more familiar with Fiji, its economy, living standards and is able to respond more efficiently to the needs of the insured party(ies).
- Significantly lower insurance costs compared with the US insurance provider students had previously opted for.

- A dedicated student support officer available 24/7 to assist students with claims, medical emergencies and other issues.
- Processing and reimbursement / direct payment in Fiji covering medical bills, stolen items and other costs incurred by students. Previously, the majority of claims were reimbursed when the students returned to their countries of origin.

Premiums are collected by the Parent Company in the Japanese currency and remitted to FBIL. Notably, all claims are also paid in the Japanese Yen at the rates prevailing on the date of payments.

This scheme has since its February 2016 inception proven popular with Japanese students with now over 60% of current students insured under the scheme and a signup rate of over 90% for all new students. The Company has to date only received claims for stolen property for which a police report and a receipt of purchase is required.

Please note that the in-house insurance scheme is not an insurance business as defined in the Insurance Act 1998 and is therefore considered outside the Reserve Bank of Fiji's supervisory ambit rendering unavailable, any assistance and mediation under the Act mentioned herein.

## Future Demand

The key to sustainability and profitability of FBIL's business lies in the future global demand for the English language training. Historically, demand by non-native speakers have been high, with the English language playing a pivotal role in the international arena of connectivity, business and culture and despite growing international interests in other languages such as Mandarin and Spanish, the demand for English language training is projected to continue growing in the long term.

According to the British Council's 2014 Annual report, there were over 1 billion people learning English worldwide, including approximately 750 million English as a Foreign Language (EFL) speakers and 375 million English as a Second Language (ESL) speakers. The total number is projected to exceed 1.9 billion by 2020.

It is estimated that in 2014, 2.28 million people travelled abroad for a language course. Of this, 61% or 1.4 million students studied English<sup>1</sup>.

Demand is being fueled by growth in newer "source countries" such as China, Taiwan, Burma, Thailand and Vietnam which are enjoying an economic boom. Japan is also projected to see a boost in demand as economic trends move towards globalization and as it prepares for the 2020 Olympic Games in Tokyo.

Several factors make FBIL's offering uniquely attractive to Japanese students and increasingly, students from other countries. Some of these factors include:

- An exotic location in Fiji, which is well known for its tourism and hospitality
- An English-speaking population which at the same time offers diverse cultural experiences
- Highly-competitive costs compared with developed countries
- A total immersion experience through Integration with local schools and the homestay program
- In addition, FBIL's strong links to SPFB and its principals provides access to effective marketing to Japanese students and other Asian countries, thus building a more diversified clientele for FBIL and reducing its reliance on the Japanese market and its economy for its student roll.

## Global Marketing

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<sup>1</sup> IALC Study Travel Research Report 2016 "Trends in the Demand for Foreign Languages".

Marketing of services outside Japan (exclusively held with SPFB) is generally considered global marketing for which FBIL has service agreements with agents based in Mongolia, South Korea, China and Taiwan. This is further supported via FBIL's online application, registration and enrollment platform.

### 3 Capital Structure, the Board and Management

In preparation for a listing on the South Pacific Stock Exchange, FBIL via a special resolution in 2013 commenced the transition to a public company to which FBIL's employees were given the opportunity to subscribe for shares in the Company at a par value of \$1.00 per share. This resulted in a total of 6,999 shares being issued to 46 employees.

FBIL formally became a public company in November, 2016 after obtaining shareholder approval and adopting and registering new Articles of Association.

#### Capital Structure

The Company was initially established with an authorised capital of \$2,000,000 divided into 2,000,000 ordinary shares at a par value of \$1.00 per share. This was increased to \$20,000,000 divided into 20,000,000 ordinary shares in 2013 in preparation for listing on the SPSE.

At the effective date of this Offer Document, the top 20 shareholders of FBIL were as follows:

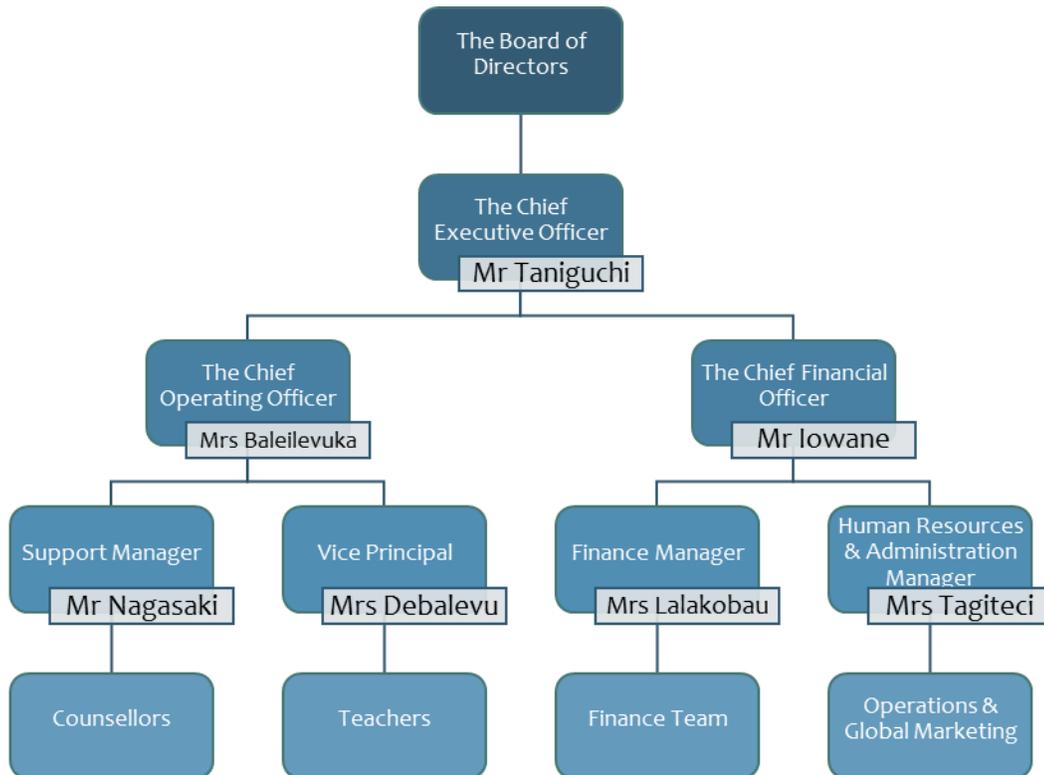
Shareholders name	Shares held	Holdings (%)
1 South Pacific Free Bird Co., Ltd	1,500,000	74.99%
2 Capital Advisory Company Limited	125,000	6.25%
3 Dilikoti Cagi	220,550	11.03%
4 IBC Company Limited	62,500	3.12%
5 Hiroshi Taniguchi	56,800	2.84%
6 Yoshinobu Higashi	25,000	1.25%
7 Naulu Baleilevuka	2,000	0.10%
8 Mitsuo Sakashita	1,000	0.05%
9 Mereseini Baleilevuka	1000	0.05%
10 Magdelene Naidu	650	0.03%
11 Losalini Tagiteci	550	0.03%
12 Sekope Kikau	500	0.02%
13 Bulou Ulamila Rokomoce	450	0.02%
14 Mosese Toganivalu	400	0.02%
15 Litea Bola	250	0.01%
16 Timoci Taukei	200	0.01%
17 Setariki Rakoto	200	0.01%
18 Vaciseva Bolaniwaqa	150	0.01%
19 Vinaisi Koroi	150	0.01%
20 Marica Debalevu	150	0.01%
Others	2500	0.13%
<b>TOTAL ISSUED CAPITAL</b>	<b>2,000,000</b>	<b>100.00%</b>

74.99% of FBIL is owned by South Pacific Free Bird Co., Ltd (SPFB). SPFB's relationship with FBIL is further detailed in Section 4.

A detailed listing of all the shareholders can be obtained from the Company's registered office at \$0.50 per page.

## Organisational Structure

The key positions in the Company are shown in the following diagram:



## Board of Directors

### Hiroshi Taniguchi

*Chairman | Chief Executive Officer*

Period served on the Board: 6 years  
 Expiry of current term: 2017 AGM or 18/06/2017, whichever is earlier

Age: 44  
 Residential address: Apartment 407, Anchorage Beach Resort, Vuda, Lautoka

Mr. Taniguchi is the Founder, Board Chairman and the Chief Executive Officer of the Company. He is also the Founder of the Japanese parent company, SPFB, in which he holds the same positions.

After gaining extensive experience in various business sectors throughout Asia, Mr. Taniguchi decided to invest in Fiji, moving here in 2006.

Mr. Taniguchi currently holds 56,800 shares in FBIL and has an indirect interest in the Company through SPFB of which he owns 72.61%. His total direct and indirect interests in FBIL amounts to 57.29%.

Further to the above, Mr. Taniguchi also holds directorships in the parent company SPFB, and Lanway Fiji Ltd and is a trustee to the Ba Provincial Free Bird Institute and En Ningenseichou Foundation.

### **Mereseini Baleilevuka**

*Director | Chief Operating Officer*

Period served on the Board: 6 years  
Expiry of current term in office: 2017 AGM or 18/06/2017, whichever is earlier

Age: 53  
Residential address: Flat 1, Lot 12, Hillsdale subdivision, Nadi

Mrs. Baleilevuka has been the communication link between Japan and Fiji since 2005. With her extensive knowledge in the education sector in Fiji, where she has over 20 years of experience. She assisted Mr. Taniguchi with the establishment of the Institute here in Fiji and is responsible for the day-to-day operations.

Mrs. Baleilevuka graduated from the University of the South Pacific with a Bachelor of Arts degree, with majors in Education and English Literature.

She holds 1,000 shares in FBIL and has an indirect interest in the Company through SPFB in which she owns 0.05%. She also holds ownership rights and is a registered director in Befund Investment Ltd, an Investment Company and Cowbell Limited which is an English Language school for Chinese students that commenced operations in September of this year.

### **Yoshinobu Higashi**

*Director*

Period served on the Board: 2 years  
Expiry of current term in office: 2017 AGM or 18/06/2017, whichever is earlier

Age: 68  
Residential Address: 7-36-14 Okusawa, Setagaya, Tokyo

Mr. Higashi is based in Japan. With a Bachelor of Law degree from Tokyo University, Japan, he has held various posts with the Japanese Government including diplomatic postings as the Ambassador for Japan to Geneva, Switzerland and Romania. He has also been Director General for Economy and Political Coordination with the Japanese Government, a Professor at Tohoku University, Japan and the General Manager of Josai University, Japan.

Mr. Higashi holds 25,000 shares in FBIL and has an indirect interest in the Company through SPFB in which he owns 0.87% in shareholdings tallying to 0.07% in total interest held in FBIL. He also holds directorship with the board of the parent company, SPFB.

### **Waisale Iowane**

*Director | Chief Financial Officer | Compliance Officer*

Period served on the Board: 1 year  
Expiry of current term in office: 2017 AGM or 18/06/2017, whichever is earlier

Age: 27

Residential Address: 6 K M James Road, Balawa New Subdivision, Lautoka

Mr. Iowane holds a Bachelor of Commerce degree with majors in Accounting and Banking from the University of the South Pacific and has over four years' experience in chartered accountancy firms, Aliz Pacific and KPMG, where he held Senior Accountant positions. He subsequently worked at Fiji Airways as the first ever Tax Analyst before joining FBIL in late 2015. He is a provisional member of the Fiji Institute of Accountants and is a current associate member of the Certified Practising Accountants (CPA) in Australia. He is also a member of the Rotaract Club of Nadi New Horizons and Leadership Fiji. Mr. Iowane is also a director on the board for Glitter Pte Ltd.

Mr. Iowane has no direct or indirect interest in shares of the Company.

### **Raman Velji**

*Director*

Period served on the Board: 1 year  
Expiry of current term in office: 2017 AGM or 18/06/2017, whichever is earlier

Age: 65  
Residential address: Nadi Back Road, Nadi

Mr. Velji is a Nadi based businessman and an independent director on FBIL's board. He holds a Bachelor of Arts degree in Linguistics from Pacific University, California and is a licensed Real Estate Broker in the state of Oregon, USA. Additionally, Mr. Velji is employed as an executive director on the Board of Pacific Hotel Brokers.

Mr. Velji has no direct or indirect interest in shares of the Company.

### **Adi Litia Qionibaravi**

*Director*

Period served on the Board: 4 months  
Expiry of current term in office: 2017 AGM or 18/06/2017, whichever is earlier

Age: 62  
Residential address: 3 Gardiner Road, Nasese, Suva

Adi Litia is an independent director on FBIL's board and brings a wealth of knowledge and experience to the board having a professional background in both accountancy and law. She currently is based in Suva serving as the General Secretary to the Social Democratic Liberal Party.

She was admitted as a chartered accountant in 1984 with the Fiji Institute of Accountants. She is also a Barrister/Solicitor of the High Court of Fiji, member of the Fiji Law Society, Barrister of the Supreme Court of New South Wales and Barrister of the Supreme Court of the Australian Capital Territory – Canberra.

Adi Litia also holds directorship positions with the Vitivou Forum and the Adi Cakobau School Old Girls Inc. Ltd. She otherwise has no direct or indirect interest in shares of the Company.

## **The Management Team**

**Yuma Nagasaki** - *Support Manager*

Mr. Nagasaki holds a Bachelor of Business Administration degree from Kobe University, Japan. He has been with the Company for over nine years, and previously worked as a Systems Engineer with Daiwa & IBM Information System Company Limited in Japan.

He currently oversees the welfare and student life at the Institute and manages the in-house insurance arm of the business.

**Sereana Lalakobau** - *Finance Manager*

Mrs. Lalakobau joined the Company in early 2016 from Goodman Fielder International (Fiji) Limited where she spent over five years in various roles including Financial Accountant, Business Analyst and Management Accountant.

Mrs. Lalakobau graduated from the University of the South Pacific with a Bachelor's Degree in Commerce with double majors in Accounting and Economics.

**Losalini Tagiteci** - *Human Resources | Administration Manager*

Mrs. Tagiteci has been with the Company for over nine years where she has held various positions. She holds a Bachelor of Arts degree in Management and Economics from the University of the South Pacific.

She currently oversees the HR, employee welfare and administration side of the business.

**Marica Debalevu** - *Vice Principal*

Mrs. Debalevu holds a Master of Arts degree majoring in Teaching English as a Second or Other Language (TESOL) from the University of Fiji and is the Vice Principal of the Institute. She has been with the Company for over eight years holding various positions in the two campuses.

Her responsibilities include the administration of the school curriculum with the guidance of the Chief Operating Officer and oversees the teaching staff at each campus.

## 4 Related Party Transactions

FBIL has entered into several agreements with related parties, the main terms of which are highlighted below. Copies of the agreements are available for inspection by shareholders at the Company's registered office at a cost of \$0.50 per page printout.

### Service Agreement

The relationship between the Company and its Japanese parent, South Pacific Free Bird Limited (SPFB), is governed by a Service Agreement signed on 01 January, 2011.

#### *Responsibilities of Each Party*

Under the Agreement, FBIL is tasked with the following:

- Facilitating the move into and out of Fiji by foreign students, including assisting with visa arrangements, "meet and greet" at Nadi Airport and briefing students on living and schooling in Fiji.
- Arranging homestay or other local accommodation for students.
- Arranging placement of students at local schools, other than FBIL's campuses, where appropriate.
- Providing suitable and qualified staff to teach English at the campuses and "outsourced" schools.
- Providing suitable teaching facilities at the Institute that meet international standards.
- Providing suitable staff to counsel and advise students.
- Reporting regularly to SPFB, regulators and other stakeholders.

Under the Agreement, SPFB is tasked with the following:

- Exclusive agency for marketing Fiji and the Institute as a destination for learning English through its networks in Japan, Korea and other countries.
- Protecting and continuing to invest in the "brand" that was developed for English language learning in terms of financial support, development and implementation of its English programs and overall strategic management.
- Assisting FBIL in sourcing teaching material and equipment where appropriate.
- Ensuring FBIL's services remain competitive through market research and sharing of information with FBIL.

#### *Fees*

SPFB sets the price which the students pay in Japan, based on current market conditions, as well as competitors in Japan who send Japanese students to other countries such as Ireland, Australia, New Zealand and the Philippines.

The students are individually invoiced by SPFB who sets the tuition prices based on the market demand in Japan. FBIL's costing is done independently from SPFB, FBIL takes its own costs from the operations in rendering the services detailed in the Services Agreement and adds its own mark-up. Similarly, SPFB does its costing independently and its mark-up.

SPFB invoices the students in Yen, whilst FBIL invoices SPFB in FJD and converts the FJD amount to JPY using the average JPY rate at every month end. SPFB, when remitting the funds, remit the JPY equivalent stated in the invoice.

Under agreement, SPFB is invoiced by FBIL monthly for the services provided under mutual agreement based on the:

- Number of students supplied by SPFB
- Program undertaken by the students supplied by SPFB
- Duration of stay as submitted by SPFB as requested by each of SPFB's clients
- Professional staff provided in the Fiji campus for the conduct of services
- Other services that are provided by to SPFB clients as and when requested
- Any other costs that are directly and / or indirectly incurred within the scope of the above agreed terms.

For the FY2016 and the purposes of the financial projections that follow this Offer Document, SPFB is invoiced at cost plus 30% for services provided in Fiji by the Company.

The relationship between FBIL/SPFB is reflected in FBIL's balance sheet is done in the ordinary course of business. At the end of each month, FBIL raises an invoice to SPFB after rendering the services it requires to in the Services Agreement and as a result, the receivables are reflected on the balance sheet. The turnover of debtors is usually within the month, therefore, balances reflected at each month-end or year-end are usually for the current months.

Similarly, the same is done when it comes to the in-house insurance, whereby, SPFB remits all the funds less their services charges to FBIL at the end of each month.

#### *Other Terms*

- The Agreement expires on 31 December, 2025 unless renewed by mutual agreement.
- SPFB may terminate the Agreement with two years' written notice.

## **Loan Agreement**

The Company has a loan agreement with SPFB dated 01 August, 2016 in which an existing loan had been consolidated with new lending under renegotiated terms and conditions. The initial loan was entered into in 2011 to cover VAT penalties imposed by FRCA on the Company totalling \$512,677.06. The pay-out affected the company's cash flow and liquidity which required SPFB's support. The company has since recovered from this and has now changed its costing to include the relevant taxes to SPFB, who will ultimately pass this cost onto the students.

The key terms of the agreement include the following:

- ¥72.9 million loan amount (equivalent to approximately FJD \$1,458,167.43 at the date of this Offer Document.)
- Effective date 01/08/2016
- Repayment amount: ¥1.3m monthly
- 5-year term
- Unsecured
- 3% interest per annum

## **Memorandum of Understanding**

The Company has been delegated the responsibilities of SPFB under a Memorandum of Understanding (MOU) signed between SPFB and Ba Provincial Secondary School Management (BPSSM).

Under the MOU, SPFB assists with the management of a local high school, Ba Provincial Free Bird Institute (BPFBI), owned by BPSSM. This arrangement also requires that SPFB upgrade and maintain the school to high standards, as well as establish sister-school, student exchange and sports exchange relationships between the BPFBI and Japanese counterparts.

A notable benefit under this MOU is the marketing of BPFBI as a high school alternative to Japanese students looking to complete their secondary school education. The International fees paid by the Japanese students are used to maintain and upgrade the school facilities as well as assist in the operations of the school.

The MOU has a 50-year term and SPFB pays BPSSM FJD \$10,000 monthly for a participation in the management of BPFBI.

This MOU is part of Mr. Taniguchi's vision to provide access to Japanese high school students to a similar educational and cultural experience in Fiji that is enjoyed by older students at the FBIL English language institute. The concept is growing in popularity in Japan and the number of students attending the high school has increased significantly since the MOU was signed.

Note that SPFB does not own BPFBI and does not have any direct or indirect interests in BPSSM and its related companies other than those set-out in the MOU.

## **5 Articles of Association**

The company's articles include the following key provisions:

### **Share Capital**

All issued shares are of the same class and rank equally in all aspects.

### **Voting**

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands. Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held every member present in person or in the case of a corporation by a representative and entitled to vote shall have one vote on a show of hands and at a poll every member who is present in person or by proxy or attorney or representative and entitled to vote and shall have one vote for every share of which he is the holder.

Voting rights in respect of fully paid shares shall be on a one- for-one basis.

### **Appointment and Retirement of Directors**

Unless otherwise determined by a General Meeting, the number of Directors shall not be less than three (3). The company in General Meeting may from time to time increase or reduce the number of Directors, and may also determine in what rotation such increased or reduced number is to go out of office.;

No corporation is eligible to be appointed as a Director of the company and Directors shall not be required to hold any share qualification.

The holder for the time being of a majority of the issued shares in the capital of Company conferring the right to vote at all general meetings of the Company may at any time and from time to time appoint any other persons to be Directors to fill casual vacancies or as auditors to the Board of Directors but so that the total number does not exceed the maximum fixed by or in accordance with the articles.

All the directors retire at each annual general meeting of the company and all retiring directors are eligible to offer themselves for re-election.

### **Directors Remuneration**

The remuneration of the Directors, range from FJ\$300 to FJ\$700 monthly and is determined by the Company and reviewed in its general meetings. Executive directors currently do not receive a separate directors' fees but do receive remuneration in the form of their position as Executive officers of the Company.

Every director shall also be entitled to be paid out of the funds of the Company all reasonable travelling, hotel and other expenses incurred in attending meetings of the Company or of Directors or any committees thereof or while engaged on the business of the Company, and, if any of the Directors shall be called upon to perform extra service or exercise any special professional acquirements for any purpose of the Company or to make special exertions in going from usual residence or abroad or otherwise for any purposes of the Company, shall be paid all his travelling outlays and such additional sum by way of remuneration, as shall be fixed by the Directors.

## **Dividends**

To date, FBIL has not paid out dividends. Upon listing the Company on the SPSE, the Directors intend to distribute between three and five percent of net profit after tax by way of dividends, with the remainder reinvested in the Company.

In accordance with the Company's dividend policy, the Directors may from time to time declare and pay dividends to the members entitled thereto as and when it appears to the Directors to be justified by the profits of the Company. No dividend shall be paid otherwise than out of profits.

## 6 Financial Information

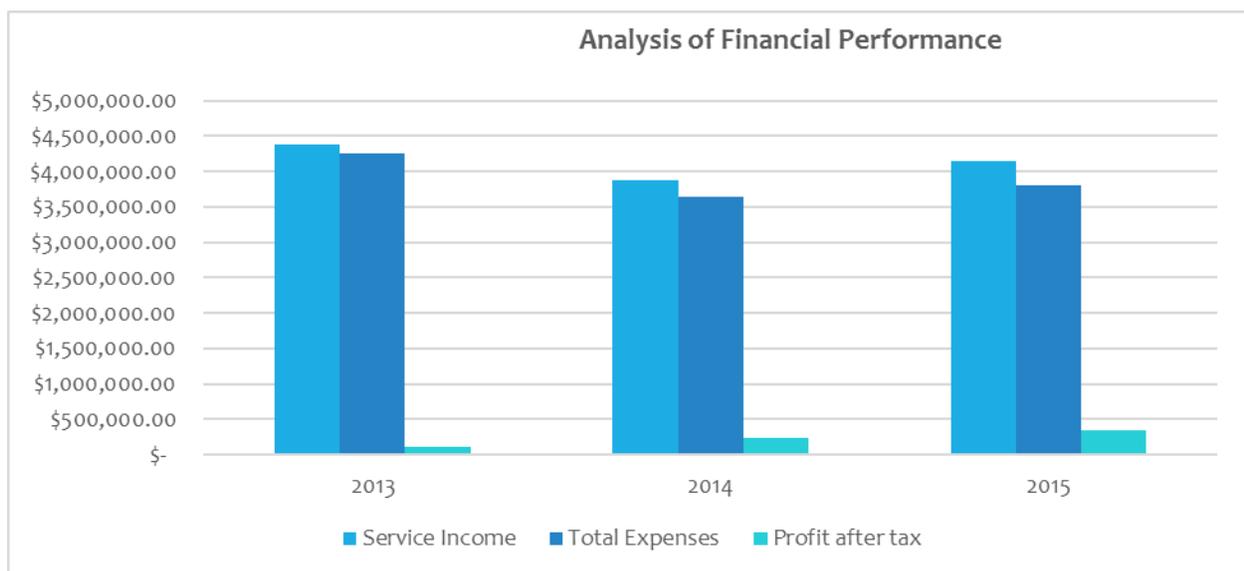
### Historical Performance

FBIL's audited financial statements for the financial years 2013 – 2015 and supporting notes are shown below.

#### Comprehensive Income

	31 December 2013 FJ\$	31 December 2014 FJ\$	31 December 2015 FJ\$
<b>Service fees</b>	4,376,893	3,872,443	4,146,546
<b>Direct costs:</b>			
Accommodation costs and supplies	(20,312)	(25,444)	(21,558)
Depreciation - buildings, walkway and fence	(52,250)	(53,189)	(53,412)
Electricity and water	(83,345)	(63,761)	(57,800)
Home stay fees	(1,376,127)	(1,251,091)	(1,258,722)
Immigration and government fees	(310,306)	(262,741)	(274,021)
Operational costs - School	(31,109)	-	-
Security	(790)	(265)	-
Wages and salaries - Expatriates	(594,947)	(471,447)	(387,354)
<b>Gross profit</b>	<u>1,907,707</u>	<u>1,744,505</u>	<u>2,093,679</u>
Gross profit margin	43.59%	45.05%	50.49%
<b>Less expenses</b>			
<b>Operating expenses:</b>			
Bank charges	(4,410)	(3,512)	(7,092)
Classroom supplies	(51,297)	(63,742)	(67,797)
Education and training	(34,968)	(35,891)	(5,876)
Freight, postage and courier	(2,781)	(762)	(1,038)
Fringe benefit tax	(7,331)	(5,552)	(4,617)
Fiji National University Levy	(16,136)	(13,199)	(14,422)
Insurance	(4,768)	(4,608)	(2,790)
Licence and rates	(721)	(1,711)	(23,335)
Gain/Loss on sale of motor vehicle	(439)	840	3,853
Meals and entertainment	(13,304)	(10,985)	(13,164)
Motor vehicle expenses	(28,510)	(26,179)	(13,623)
Non Resident Interest Withholding Tax	(7,553)	-	(2,245)
Office expenses	(6,467)	(7,367)	(6,853)

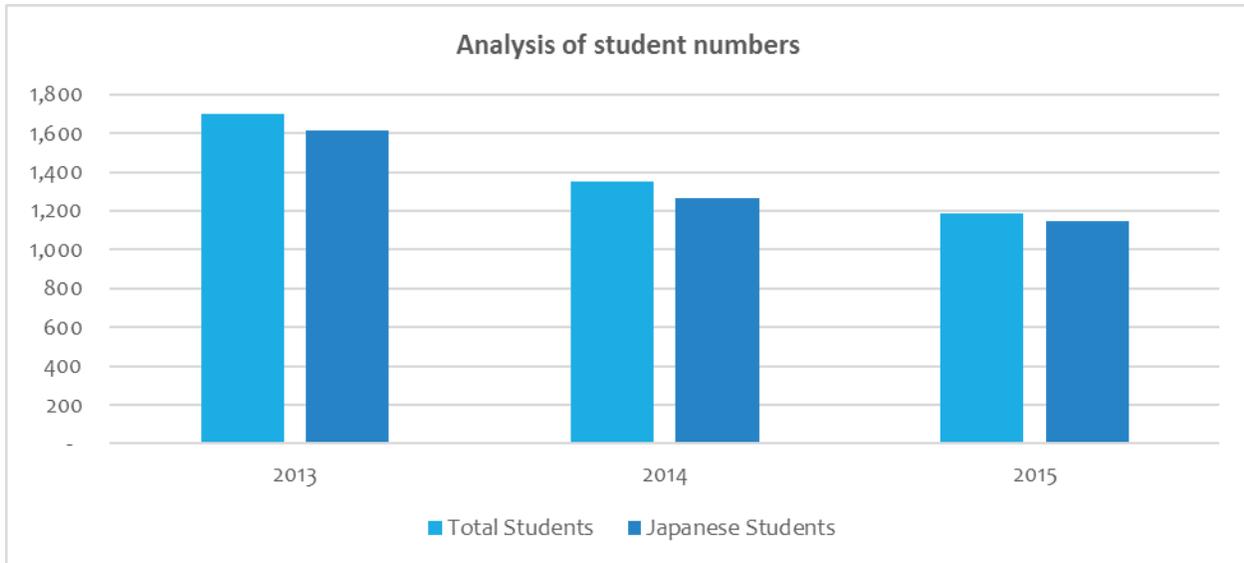
Other expenses	(17,106)	(19,931)	(12,622)
Printing and stationary	(31,141)	(16,921)	(17,353)
Professional fees	-	(8,423)	(2,500)
Rent	(111,389)	(102,564)	(117,756)
Repairs and maintenance	(30,949)	(32,704)	(14,942)
Staff amenities	(2,969)	(2,473)	(347)
Subscriptions	-	-	(619)
Superannuation	(143,104)	(134,983)	(90,680)
Telephone and internet	(72,206)	(42,787)	(35,291)
Travel and accomodation	(57,276)	(29,771)	(22,737)
Tuition	(3,475)	(900)	(375)
Wages and salaries	(718,873)	(643,664)	(661,759)
<b>Administrative expenses:</b>			
Accounting fees	(22,654)	(23,567)	(19,109)
Audit fees	(13,500)	(13,500)	(13,500)
Advertising	(599)	(554)	(53,172)
Consumables	(11,057)	(6,912)	(5,562)
Depreciation - MV, OE and furniture	(32,819)	(27,866)	(30,207)
Directors salaries and FNPF	(188,068)	(168,363)	(216,215)
Donations	(96,465)	(3,635)	-
Legal fees	(9,998)	-	-
Subscription and miscellaneous	(693)	-	-
<b>Profit from operations</b>	<b>164,681</b>	<b>292,319</b>	<b>619,934</b>
Finance income	125,540	121,877	5,876
Finance cost	(132,214)	(98,988)	(198,904)
<b>Profit from operations before tax</b>	<b>158,007</b>	<b>315,208</b>	<b>426,906</b>
Income tax expense	(43,257)	(77,459)	(83,661)
<b>Profit for the year</b>	<b>114,750</b>	<b>237,749</b>	<b>343,245</b>



**Comments:**

Net profit after tax increased in 2014 despite a drop in revenue. With a drop in the number of students from 2013 which in turn affected revenue, management adopted a strategy of cost reduction. This approach was highly successful in improving profitability.

Over the three-year period, there was a decline in the number of students coming to Fiji to study English.



Historically, Japan’s unemployment rate has been correlated with higher demand for FBIL’s product offering. The majority of FBIL’s Japanese students are recent graduates who cannot find jobs and who learn English as an alternative employment pathway. Therefore, higher unemployment rates translate to higher student demand and vice versa.

The unemployment rate in Japan declined over the period 2013-2015, from approximately 4.3% in 2013 to about 3.3% in 2015. As a result, what was previously a 3:1 ratio of “graduates seeking employment” vs “employers offering employment” now stands at 1.28:1 as at February 2016, as reported by *Statistics Japan*. This was reflected in the drop in student numbers for FBIL from 2013.



Despite the decline in student numbers, FBIL was able to increase profits thanks to a change in strategy. Management recognised that FBIL needed to compete on price in an increasingly competitive and price-conscious market. A more effective costing approach was adopted with marketing focused on cost-effectiveness as well as accentuating the unique characteristics of the Institute's Fiji location. The positive results can be seen in performance from 2015 onwards.

### Financial Position

	31 December 2013	31 December 2014	31 December 2015
	FJ\$	FJ\$	FJ\$
<b>Current assets</b>			
Cash and cash equivalent	385,594	578,308	982,056
Trades and other receivables	378,043	512,439	521,402
Held-maturity investments	-	20,000	-
	<u>763,637</u>	<u>1,110,747</u>	<u>1,503,458</u>
<b>Non-current assets</b>			
Property plant and equipment	1,979,174	1,928,027	1,893,195
Held-maturity investments	20,000	-	21,440
Deferred tax asset	288,427	210,968	127,307
<b>Total Assets</b>	<u>3,051,238</u>	<u>3,249,742</u>	<u>3,545,400</u>
<b>Current liabilities</b>			
Trade and other payables	140,258	142,117	145,233
Payable to related parties	83,826	131,593	61,681
Interest bearing borrowings	401,387	104,928	209,617
	<u>625,471</u>	<u>378,638</u>	<u>416,531</u>
<b>Non-current liabilities</b>			
Interest bearing borrowings	1,050,729	1,258,317	1,172,837
<b>Total liabilities</b>	<u>1,676,200</u>	<u>1,636,955</u>	<u>1,589,368</u>
<b>Net assets</b>	<u>1,375,038</u>	<u>1,612,787</u>	<u>1,956,032</u>
<b>Shareholders' equity</b>			
Share capital	2,000,000	2,000,000	2,000,000
Accumulated loss	(624,962)	(387,213)	(43,968)
<b>Total shareholders' equity</b>	<u>1,375,038</u>	<u>1,612,787</u>	<u>1,956,032</u>

### Comments:

#### Liquidity

- The CFO in his role, ensures that the Company has sufficient funds available to meet all its current and potential obligations. Historically, the Company's debtor management has played an important role in providing liquidity. In addition, the Company has been able to maintain its working capital requirements as a percentage of revenue steady at 3% for FY2014 and FY2015.

#### Deferred Tax Asset

- The deferred tax asset carried in the books is made up largely of losses carried forward from FY2012. This was a result of the imposition of VAT on 2012 income and retrospectively on 2011 income, although the Company had not charged and collected VAT from students at that time. As the students had already completed and left the programme, the Company was unable to recover costs. Accordingly, the Company paid the outstanding VAT liability as determined by the Fiji Revenue & Customs Authority, resulting in a large one-off loss of \$1,150,060 in the 2012 financial year.

#### Interest bearing borrowings

- To meet the VAT bill, the Company secured financing from its Japanese parent company. This is shown in the Statement of Financial Position as a borrowing at the rate of 3% per annum.
- The initial loan amount increased in 2014 and 2015 as a result of foreign exchange movements between the Fiji Dollar and the Japanese Yen. The loan from the parent is dominated in Yen and the Company adopts an average of the inward and outward rate from its bankers in calculating the Fiji dollar equivalent of the loan amount outstanding. The Japanese Yen strengthened against the Fiji dollar by about 3.23 points in 2014 and 2015.

#### Accumulated losses

- Accumulated losses reflect the extraordinary 2012 loss resulting from the imposition of VAT. Importantly, accumulated losses have continued to decline as a result of the increased profitability of the Company over the past three years.

#### Trade and other receivables

- Trade and other receivables were incurred in the ordinary course of the business. The majority of the receivables comprise monies owing to the Company from SPFB from services rendered in the ordinary course of business.

#### Cashflows

	<b>31 December 2013 FJ\$</b>	<b>31 December 2014 FJ\$</b>	<b>31 December 2015 FJ\$</b>
<b>Operating cash flows</b>			
Receipts from students	4,361,545	3,853,432	4,172,368
Payment to suppliers and employees	(4,775,851)	(3,571,411)	(3,626,696)
Interest received	1,056	1,044	3,261
Interest paid	-	-	(19,798)
<b>Cash flows from operating activities</b>	<u>(413,250)</u>	<u>283,065</u>	<u>529,135</u>
<b>Investing activities</b>			
Acquisition of property, plant and equipment	(59,183)	(40,568)	(51,891)
Proceeds from the sale of fixed assets	3,500	11,500	6,957
<b>Cash flows used in investing activities</b>	<u>(55,683)</u>	<u>(29,068)</u>	<u>(44,934)</u>
<b>Financing activities</b>			
Receipts from additional shares issued	36,498	-	-
Advances (to)/ from related parties	-	(61,283)	-
Loan (repayments to)/ received during the year	543,912	-	(80,453)
<b>Cash flows (used in)/ from financing activities</b>	<u>580,410</u>	<u>(61,283)</u>	<u>(80,453)</u>
Net increase in cash and cash equivalents	111,477	192,714	403,748
Cash and cash equivalent at 1 January	274,117	385,594	578,308
<b>Cash and cash equivalent at 31 December</b>	<u><b>385,594</b></u>	<u><b>578,308</b></u>	<u><b>982,056</b></u>

#### Comments:

The Company demonstrated strong liquidity over the past three years of operations, due mainly to the following:

- Quick turn-over of debtors and management's efforts to minimise expenses and the adverse impact of a strengthening Yen against the Fiji dollar. In regard to the latter, the Company entered a hedging contract with its bankers in 2016 to safeguard against foreign exchange losses.
- Financial support in the form of funding held on fluid terms strongly evidencing the close relationship FBIL holds with the Parent Company. Initial funding received to clear FRCA payment.

## Interim Financial Statements

FBIL's financial statements for the 6-month interim period ending 30 June, 2016 are shown below. These results have been reviewed by the Company's auditors KPMG in accordance with International Standards on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

### Comprehensive Income

	<b>Not Reviewed 30 June 2015 FJ\$</b>	<b>Reviewed 30 June 2016 FJ\$</b>
Service fees	2,067,113	2,405,748
In-house insurance income	-	176,320
Other income	7,813	8,067
Direct costs	<u>(1,027,007)</u>	<u>(1,097,906)</u>
	1,047,919	1,492,229
Operating expenses	(529,606)	(831,341)
Administrative expenses	<u>(115,992)</u>	<u>(43,367)</u>
<b>Profit from operations</b>	402,321	617,521
Finance income	1,708	20,029
Finance cost	<u>(56,634)</u>	<u>(212,891)</u>
<b>Profit from operations before tax</b>	347,395	424,659
Income tax expense	-	<u>(72,554)</u>
<b>Profit for the period</b>	347,395	352,105
Other comprehensive income - net of income tax	-	-
<b>Total comprehensive income for the period</b>	<u><u>347,395</u></u>	<u><u>352,105</u></u>

### Comments:

The increase in service fees is a direct result of the change in the Company's pricing and costing as well as an increase in student numbers by 16% compared with the previous corresponding period. Student numbers increased from 617 students in the first six months of 2015 to 716 students for the same period in 2016.

The Company implemented an in-house insurance scheme in February 2016 and take-up by students has been strong, with 94% of students at the end of June 2016 opting for the scheme.

Please note that total comprehensive income for half-year to 30 June 2015 were not reviewed. In addition, most of the company's audit adjustments were done towards the end of the previous financial year. Accordingly, the above must be read in conjunction with the explanatory notes set out in the special purposes interim financial statements.

## Financial Position

	<b>Audited</b> <b>31 December</b> <b>2015</b> <b>FJ\$</b>	<b>Reviewed</b> <b>30 June</b> <b>2016</b> <b>FJ\$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	982,056	1,228,695
Trade and other receivables	521,402	864,055
Held-to-maturity Investments	-	250,000
<b>Total current assets</b>	<u>1,503,458</u>	<u>2,342,750</u>
<b>Non-current assets</b>		
Held-to-maturity Investments	21,440	50,485
Property, plant and equipment	1,893,195	1,971,013
Deferred tax asset	127,307	54,763
<b>Total non-current assets</b>	<u>2,041,942</u>	<u>2,076,261</u>
<b>Total assets</b>	<u><u>3,545,400</u></u>	<u><u>4,419,011</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Other payables	145,233	395,990
Payable to related parties	61,681	75,366
Interest bearing borrowings	209,617	230,841
Provisions	-	46,961
<b>Total current liabilities</b>	<u>416,531</u>	<u>749,158</u>
<b>Non-current liability</b>		
Interest bearing borrowings	<u>1,172,837</u>	<u>1,361,706</u>
<b>Total non-current liability</b>	<u>1,172,837</u>	<u>1,361,706</u>
<b>Total liabilities</b>	<u><u>1,589,368</u></u>	<u><u>2,110,864</u></u>
<b>Shareholders' equity</b>		
Share capital	2,000,000	2,000,000
Retained earnings/ (Accumulated losses)	<u>(43,968)</u>	<u>308,147</u>
<b>Total shareholders' equity</b>	<u>1,956,032</u>	<u>2,308,147</u>
<b>Total shareholders' equity and liabilities</b>	<u><u>3,545,400</u></u>	<u><u>4,419,011</u></u>

### Comments:

The overall increase in the Company's asset base reflects the Company's strategic cash flow management and interest earned on excess cash flows invested in short-term deposits. Furthermore, there was an increase in receivables relating to in-house insurance scheme premiums.

2016 saw the JPY strengthening against the FJD which had various impacts to FBIL's liquidity. The gain saw the inflow of revenue to be more favourable for FBIL in terms of the realised exchange gains. FBIL pursued to multiple options in managing its cash flows through hedging contracts with ANZ where FBIL would secure a more favourable rates in regards to the inward TT's of JPY compared to the rates initially invoiced to SPFB.

However, on the downside, the strengthened JPY saw the inter-company loan with SPFB being revaluated upwards due to the upward movements of the JPY against the FJD which causes FBIL to recognise an unrealised exchange loss.

Furthermore, as a result of the in-house insurance scheme, the Company pays SPFB 40% service fees on insurance premiums accounting for brokerage services and client relationship management.

SPFB, as part of its engagement with FBIL to protect and invest in its brand continues to support the Company in terms of the financial sustainability in both its English Language programs and the new Insurance arm of the business serving as a liquidity buffer as and when the need arises.

### Cashflows

	<b>Not Reviewed 30 June 2015 FJ\$</b>	<b>Reviewed 30 June 2016 FJ\$</b>
<b>Operating activities</b>		
Receipts from students	1,971,337	2,149,179
Payment to suppliers and employees	(1,843,068)	(1,868,983)
In-house insurance premiums received	-	370,432
Claims paid	-	(8,208)
Interest received	1,344	3,826
Interest paid	(4,645)	-
<b>Cash flows from in operating activities</b>	<u>124,968</u>	<u>646,246</u>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(57,722)	(121,186)
Proceeds from sale of property, plant and equipment	11,500	624
Held to maturity investments	-	(279,045)
<b>Cash flows used in investing activities</b>	<u>(46,222)</u>	<u>(399,607)</u>
<b>Financing activities</b>		
Receipt from additional shares issued		
Advances to related party	-	-
Loans paid during the year	(18,878)	-
<b>Cash flows used in financing activities</b>	<u>(18,878)</u>	<u>-</u>
Net increase in cash and cash equivalents	59,868	246,639
Cash and cash equivalents at 1 January	578,309	982,056
<b>Cash and cash equivalents at 30 June</b>	<u><u>638,177</u></u>	<u><u>1,228,695</u></u>

### Comments:

The company's cash flow for the period increased by 93% compared to the previous corresponding period. This primarily reflects premium income from international students. The Company has also invested significant excess cash in short term deposits which resulted in the 185% increase in interest income.

Additionally, as a direct result of Tropical Cyclone Winston in February 2016, the Company spent a substantial amount of money on repairing and replacing buildings that were damaged by the cyclone.

## Financial Projections

Financial projections for the financial years 2016 – 2018 are provided below. These projections were prepared by FBIL and were independently reviewed by Independent Accountants, Ernst & Young.

### Comprehensive Income

	31 December 2016 FJ\$	31 December 2017 FJ\$	31 December 2018 FJ\$
Service fees	4,735,733	4,830,447	4,972,519
Other income	1,318,963	2,174,464	2,404,349
Direct costs	<u>(2,872,747)</u>	<u>(3,667,328)</u>	<u>(3,881,900)</u>
<b>Gross profit</b>	<u>3,181,948</u>	<u>3,337,584</u>	<u>3,494,969</u>
Gross profit margin	67%	69%	70%
<b>Less expenses</b>			
Operating expenses	(1,541,475)	(1,488,837)	(1,510,688)
Administrative expenses	<u>(89,624)</u>	<u>(63,380)</u>	<u>(63,116)</u>
<b>Profit from operations</b>	<u>1,550,849</u>	<u>1,785,367</u>	<u>1,921,165</u>
Finance income	61,074	11,447	11,448
Finance cost	<u>(62,019)</u>	<u>(35,606)</u>	<u>(27,544)</u>
<b>Profit from operations before tax</b>	<u>1,549,904</u>	<u>1,761,208</u>	<u>1,905,068</u>
Income tax expense	<u>(168,779)</u>	<u>(181,415)</u>	<u>(195,879)</u>
<b>Profit for the year</b>	<u><u>1,381,125</u></u>	<u><u>1,579,793</u></u>	<u><u>1,709,190</u></u>

### Key Assumptions:

- There will be no significant changes in the nature of the competitive environment in which the company operates in during the forecast period.
- No changes will take place in the statutory, legal or regulatory environment which could detrimentally impact the operations of the company or the business environment it operates in.
- There will be no material economic, political, or industrial disturbances or damages to the assets of the company.
- There will be no material changes in Fiji's income tax regime affecting the company.
- There will be no material changes to existing agreements and memorandums of understanding with related parties.
- Services fees and various expenses have been assumed to increase at the rate of 2% and 5% based on 2016 figures for 2017 & 2018 respectively. This conservative assumption has been adopted by management based on its forecast that listing of the company will boost the number of students in the up-coming years which would in turn increase the number of days/nights spent by the students at the institute. This will also be the direct impact of the coverage that the company will have from the coverage that will be made in the Japanese media in relation to the listing of a Japanese owned company in Fiji on the South Pacific Stock Exchange (SPSE).

- Service fees:

Service fees relate to the fees earned from the provision of services to South Pacific Free Bird Co., Ltd in accordance with the Services Agreement between the two companies as well as fees received from global agents (non-Japanese). Historically, global market revenue has made up only 5%-6% of total service fee revenue. The increase in service fees for the 2016 forecasted year is correlated to the change in pricing structure due to the changes in costing module from the previous financial year. Significant changes relate to changes in homestay and dorm fees for Language students (2016: \$32.79 and \$17.61 respectively from 2015: \$22.31 and \$9.64) by \$10.48 and \$7.97 per night. In addition, it has been projected that the average number of nights per student will increase by 3 (62-65) for 2015 and 2016 respectively.

The 2017 and 2018 service fees have been calculated using a percentage growth rate which uses 2016 performance as a base. Service revenue from 2015 to 2016 shows growth of 15%. Growth in 2017 and 2018 is based on a 2% and 5% increase respectively, based on 2016 numbers.

- In-house insurance income:

This is a new income stream for the company which started in 2016.

In-house insurance income has been forecasted using April 2016 actuals as the basis of calculations as this is the month that in management's opinion the Company reached its peak in terms of the number of new students opting for the in-house insurance packages. Analysis shows that out of the total students arriving in April 2016, a total of 93% opted for the in-house insurance packages, divided between package options as follows:

Plan A	36%
Plan B	15%
Plan C	48%
Plan A+70	1%
Plan B+70	0%

Accordingly, it is assumed that 93% of new students in future years will also take up in-house insurance and that the distribution between the various plan options will also be as shown above. The 2016 insurance premiums were set in close collaboration with the SPFB and considered targeted demographics, the Japanese economic conditions, etc.

Furthermore, insurance income for subsequent years (2017 and 2018) assume percentage growth of 2% and 5% respectively based on the average number of nights from 2016.

- Homestay fees

Home stay fees have been forecasted on the basis of actual nights sold in 2015 for the months from May to December 2016, whilst the period January to April 2016 show actual results. Home stay fees in 2016 are assumed to remain unchanged.

The assumptions used for 2017 and 2018 are based on the gradual increase in the number of nights based on revenue growth rates of 2% and 5% respectively. Additionally, it has also been forecasted that the home stay fees will increase by \$1.00 per night in 2017 and will remain unchanged in 2018 i.e. an increase from \$13.50 to \$14.50 per night for the language students and an increase from \$15.00 to \$16.00 for the high school students.

- In-house insurance claims

Claims have been calculated using information in the 2014 Insurance Annual Report (IAR) released by the Reserve Bank of Fiji (RBF). Claims projected are based on the 2014 net loss figures in the IAR

for personal accident, medical and others. This resulted in the provision of 1.3%, 69.8% and 22.60% on personal accident, medical and others respectively.

Management has used the personal accident percentages as opposed to the term life percentages because the coverage taken by students only extends to the duration of studies in Fiji rather than a life term. The contract ends when the student departs Fiji after completion of studies, therefore any deaths that occur during this time is assumed to be a result of accidents, not natural causes.

Based on the agreement between the Company and the parent company, 40% of total insurance revenue is paid as insurance commission to SPFB.

- Wages and salaries

This expense includes all employee costs including bonuses for the executive officers, expatriates and other support staff. This has been based on the actual expenses from January to April 2016 and assumes there will be no overtime and that bonus payments will be made in terms 2 and 3 (September and December). Bonuses have been based on the actual bonuses paid out in April 2016.

Management has also forecasted that in December, payments will be made for outstanding annual leave. An increase by 3% and 5% in 2017 and 2018 respectively has been taken into account to cover cost of living adjustments.

- Employee related expenses

FNU levy has been calculated as 1% of total wages and salaries.

Superannuation costs relate to payments to Fiji National Provident Fund (FNPF) of 10% of the wages and salaries cost of employees who are members of the FNPF.

- Professional fees

These fees include payments to Kontiki Capital for the listing application to the South Pacific Stock Exchange.

- Accounting and audit fees

These costs include the financial year-end audit fees to KPMG as well as the Independent Accountants costs. 2017 and 2018 figures only include audit costs.

	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Direct cost</b>	<b>FJ\$</b>	<b>FJ\$</b>	<b>FJ\$</b>
Accommodation cost and supplies	5922.51	6300.8	6219.0355
Commission	475,279	866,043	957,903
Depreciation - buildings, walkway and fence	54,545	51,034	51,033
Electricity and water	73,337	78,120	77,004
Home stay fees	1,221,702	1,358,852	1,423,560
Immigration and government fees	328,389	352,800	344,808
In-house insurance claims	313,610	542,216	601,411
Wages and salaries - Expatriates	399,963	411,962	419,961
	<b>2,872,747</b>	<b>3,667,328</b>	<b>3,881,900</b>

<b>Operating expenses</b>			
Bank charges	4,642	4,502	4,876
Classroom supplies	32,824	34,465	34,465
Education and training	4,000	4,080	4,200
Freight, postage and courier	582	600	611
Fringe benefit tax	3,786	4,200	4,021
Fiji National University Levy	19,970	13,872	14,141
Insurance	3,258	3,323	3,421
License and rates	1,767	1,802	1,855
Meals and entertainment	10,267	10,781	10,781
Motor vehicle expenses	21,854	21,115	21,653
Non Resident Interest Withholding Tax	4,156	3,561	2,754
Office expenses	35,529	42,660	37,305
Printing and stationary	6,218	6,342	6,529
Professional fees	70,000	-	-
Rent	132,000	132,000	132,000
Repairs and maintenance	53,539	36,000	36,000
Staff amenities	6,041	6,120	6,343
Subscriptions	1,007	1,008	1,057
Superannuation	92,645	97,520	99,413
Telephone and internet	45,950	46,869	48,248
Travel and accommodation	44,652	42,823	46,884
Wages and salaries	946,792	975,196	994,131
	1,541,475	1,488,837	1,510,688
<b>Administrative expenses</b>			
Accounting fees	15,630	-	-
Audit fees	25,000	20,000	20,000
Advertising	1,868	1,906	1,962
Consumables	4,501	4,896	4,726
Depreciation - motor vehicle and office equipment and	33,625	26,978	26,978
Directors' remuneration	9,000	9,600	9,450
	89,624	63,380	63,116

	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Finance income</b>	<b>FJ\$</b>	<b>FJ\$</b>	<b>FJ\$</b>
Interest income	11,900	11,447	11,448
Realised foreign exchange gain	49,174	-	-
	<u>61,074</u>	<u>11,447</u>	<u>11,448</u>

- Interest income

Interest income is based on the term deposits held by the company with various financial institutions. The forecast assumes that interest earned will be added to the principal amount initially deposited. Accordingly, the interest income has been calculated on a "principal plus interest" basis and also assumes that any term deposit maturing during this time will be re-invested for a further term.

- Directors remuneration

Increase in Wages and salaries for 2017 forward reflective of the reclassification of the remuneration of Executive Directors under advise from the newly appointed auditors KPMG where it had previously been recognized under Directors fees.

	<b>31st December 2016 FJ\$</b>	<b>31st December 2017 FJ\$</b>	<b>31st December 2018 FJ\$</b>
<b>Finance cost</b>			
Interest expense on borrowings	41,121	35,606	27,544
Unrealised Foreign exchange loss	20,898	-	-
	<u>62,019</u>	<u>35,606</u>	<u>27,544</u>

- Income tax

Income tax expense assumes that the Company will be listed on the SPSE by end of the 2016 financial year and therefore will be a 10% rate. The calculations also assume that the current income tax and other relevant laws and regulations remain unchanged throughout the forecast periods. Furthermore, the calculations reflect the 150% tax deduction for pre-listing expenses incurred within the approved period, under the tax incentives for listing.

## Financial Position

	31 December 2016 FJ\$	31 December 2017 FJ\$	31 December 2018 FJ\$
<b>Current assets</b>			
Cash and cash equivalent	2,225,538	3,778,915	5,152,218
Trades and other receivables	778,630	855,955	881,663
Held-maturity investments	250,000	250,000	250,000
<b>Total current assets</b>	<u>3,254,168</u>	<u>4,884,870</u>	<u>6,283,881</u>
<b>Non-current assets</b>			
Property plant and equipment	58,559	70,006	81,454
Held-maturity investments	1,911,411	1,893,399	1,875,387
Deferred tax asset	2,090	-	-
<b>Total non-current assets</b>	<u>1,972,060</u>	<u>1,963,405</u>	<u>1,956,841</u>
<b>Total Assets</b>	<u>5,226,228</u>	<u>6,848,275</u>	<u>8,240,722</u>
<b>Current liabilities</b>			
Trade and other payables	385,214	639,734	666,896
Payable to related parties	61,681	61,681	61,681
Provisions for income tax	43,563	179,327	195,880
Interest bearing borrowings	230,841	300,000	300,000
<b>Total current liabilities</b>	<u>721,299</u>	<u>1,180,742</u>	<u>1,224,458</u>
<b>Non-current liabilities</b>			
Interest bearing borrowings	1,167,772	797,977	497,340
<b>Total non-current liabilities</b>	<u>1,167,772</u>	<u>797,977</u>	<u>497,340</u>
<b>Total liabilities</b>	<u>1,889,071</u>	<u>1,978,719</u>	<u>1,721,798</u>
<b>Net assets</b>	<u>3,337,157</u>	<u>4,869,555</u>	<u>6,518,923</u>
<b>Shareholders' equity</b>			
Share capital	2,000,000	2,000,000	2,000,000
Retained earnings	1,337,157	2,869,555	4,518,923
<b>Total shareholders' equity</b>	<u>3,337,157</u>	<u>4,869,555</u>	<u>6,518,923</u>

### Key Assumptions:

- Cash at bank is forecasted on the basis that all revenue will be received within the year except for the outstanding December invoice which is recorded as part of the trade receivables at the end of the year. Similarly, all expenses are forecasted to be paid for at the end of each financial year except for those December invoices recorded as part of trade payables at the end of the financial year.

- Held to maturity investments pertains to term deposits held by the company with various financial institutions.
- Trade and other payables have been forecasted as a percentage of purchases based on the closing balances for 2015. Accordingly, management has estimated this figure to be between 1% and 1.5% of the total costs of the company during the financial year.

### Cashflows

	<b>31 December 2016 FJ\$</b>	<b>31 December 2017 FJ\$</b>	<b>31 December 2018 FJ\$</b>
<b>Operating cash flows</b>			
Receipts from students	5,766,287	6,927,586	7,351,161
Payment to suppliers and employees	(4,102,270)	(4,934,403)	(5,410,351)
Interest received	11,900	11,446	11,449
Interest paid	(13,619)	(71,212)	(55,089)
Interest taxes paid	-	(43,563)	(179,327)
<b>Cash flows from operating activities</b>	<u>1,662,298</u>	<u>1,889,856</u>	<u>1,717,843</u>
<b>Investing activities</b>			
Acquisition of property, plant and equipment	(106,386)	(60,000)	(60,000)
Held to maturity investments	(287,119)	(11,447)	(11,448)
<b>Cash flows used in investing activities</b>	<u>(393,505)</u>	<u>(71,447)</u>	<u>(71,448)</u>
<b>Financing activities</b>			
Dividend paid during the year	-	-	-
Loans paid during the year	(25,311)	(265,031)	(273,093)
<b>Cash flows (used in)/ from financing activities</b>	<u>(25,311)</u>	<u>(265,031)</u>	<u>(273,093)</u>
Net increase in cash and cash equivalents	1,243,482	1,553,378	1,373,302
Cash and cash equivalent at 1 January	982,056	2,225,538	3,778,915
<b>Cash and cash equivalent at 31 December</b>	<u><b>2,225,538</b></u>	<u><b>3,778,915</b></u>	<u><b>5,152,218</b></u>

### Key Assumptions:

- Capex forecasted at \$60,000 for each year based on prior years results with the exception of having undergone minor renovations/upgrading of facilities due to the aftermath of the category Cyclone Winston in the first half of FY2016.
- Other cash related items has been taken constant for all the years.

## 7 Independent Accountant's Report



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PRIVATE & CONFIDENTIAL

The Directors  
Free Bird Institute Limited  
P O Box 11065  
NADI AIRPORT

20 December 2016

### Independent Accountants' Report

#### Introduction

Dear Sir/Madam

This report has been prepared at the request of the Directors of Free Bird Institute Limited ("FBIL") for inclusion in an Offer Document dated 27 October 2016 to be issued in connection with the compliance listing on the South Pacific Stock Exchange.

#### 1. INDEPENDENT ACCOUNTANTS' REPORT ON DIRECTORS FINANCIAL FORECASTS

##### (a) Scope of examination

We have examined the forecast financial information contained on pages 22 to 27 of the Offer Document of Free Bird Institute Limited for the years ending 31 December 2016, 31 December 2017 and 31 December 2018.

The Directors of Free Bird Institute are responsible for the preparation and presentation of the forecasted financial information including the assumptions on which their forecasts are based, and the establishment of adequate procedures to identify, appraise and manage the risks set out in the Financial Projections section of the Offer Document.

Our examination of the Directors' financial forecasts has been conducted in accordance with International Standard on Assurance Engagements 3400 "The Examination of Prospective Financial Information" and the relevant sections of the 2015 Companies Act. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecasted financial information and the evaluation of accounting policies. These procedures have been undertaken to form an opinion as to whether anything has come to our attention which causes us to believe that the Directors' assumptions as set out in the Offer Document do not provide a reasonable basis for the preparation of the forecast financial information, is properly prepared on the basis of the assumptions and is presented fairly in accordance with International Financial Reporting Standard for Small and Medium Sized Entities ("IFRS for SME's") considered appropriate for this purpose and on a basis consistent with the accounting policies adopted by the company, so as to present a view of the Company which is consistent with our understanding of the company's future operations and the assumptions adopted by the Directors.

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Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the forecasted financial information is based, such evidence is generally future oriented and accordingly the Company's actual results may vary from the Directors' financial forecasts and such variations may be material.

(b) Opinion on Directors' financial forecasts

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions as set out in the Financial Projections section of the Offer Document do not provide a reasonable basis for the preparation of the forecasts.

In our opinion,

- (i) the forecasts are properly prepared on the basis of the Directors' assumptions as set out in Financial Projections section of the Offer Document; and
- (ii) the forecasts for the years ending 31 December 2016, 31 December 2017 and 31 December 2018 are presented fairly in accordance with:
  - ▶ International Financial Reporting Standards for Small Medium Sized Entities considered appropriate for this purpose; and
  - ▶ On a basis consistent with the accounting policies adopted by the Company.

Actual results are likely to be different from the forecasts since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the forecasts will be achieved.

## 2. GENERAL

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Ernst & Young consents to the inclusion of this report in the Offer Document in the form and context in which it is included.

Yours faithfully

ERNST & YOUNG  
Chartered Accountants

## 8 Corporate Governance

FBIL is committed to the developing and maintaining corporate governance policies that are consistent with industry best-practice. To this end, the Company supports the Reserve Bank of Fiji's Corporate Governance Code for the Capital Markets. The Code's principles and how these are implemented in FBIL are detailed below. These are guided in part by the Company's Board Charter and the Articles of Association.

### **Principle 1 - Establish Clear Responsibilities for Board Oversight**

The Company has a Board Charter in place which sets out, amongst other things:

- recognise and ensure compliance of the Company's legal and regulatory obligations to respective stakeholders.
- the roles, functions, obligations, rights, responsibilities and powers of the Board;
- the policies, practices and procedures the must follow in carrying out its duties, functions and responsibilities; and
- the roles and responsibilities of the Chairman, Chief Executive Officer and Company Secretary.
- reviewing, ratifying, monitoring and the implementation of all systems of risk management and internal control, codes of conduct and legal compliances.

### **Principle 2 - Constitute an Effective Board**

- Candidates for directorship may be nominated by shareholders in a general meeting or identified and nominated by the Board.
- In assessing candidates for directorship, the Board is guided by the Board Charter which requires that directors should:
  - have a working knowledge and understanding of the Company's business as well as the laws, regulations and customs that apply;
  - be capable of making independent and sound business decisions and recommendations, exercise stewardship at all times and uphold the highest ethics.

In addition, the Board always seeks to have a good balance of skills, knowledge and experience among its members.

- The Board currently has a policy of having at least one independent Director who is not a member of management and is free of any business, ownership or other relationship that would materially interfere with the independent exercise of his/her judgement. In addition, the Board already has two independent directors as defined by the SPSE and will continue to meet the SPSE's requirements for independent directors when listing.
- The Board carries out regular self-assessment of its performance, as envisioned in the Board Charter.
- Upon induction, an information pack containing all relevant documents is provided to directors. Directors are also encouraged to participate in relevant RBF and SPSE training programmes.
- The Board may also seek independent advice where it deems this relevant.
- The Board currently has an Audit Committee in place.

### **Principle 3 - Appointment of Chief Executive Officer**

- The current practice is that the CEO position is held by the Chairman. This recognises the instrumental role that the incumbent plays in the day-to-day running of the Company as well as at the strategic level.
- To balance the above dual role, the role of both the Chairman and CEO are clearly defined in the Board Charter and the incumbent does not have veto powers on the Board.
- The Board has the role of monitoring and regularly assessing CEO performance.

#### **Principle 4 - Appointment of Board and Company Secretary**

- The Company has appointed a competent company and board secretary who will be the administrative link between the Board and Management. The secretary will also monitor statutory requirements and board policies and procedures and ensure that they are followed and coordinated in a timely manner.
- The role of the company and board secretary is clearly defined in the Board Charter.

#### **Principle 5 - Timely and Balanced Disclosure**

- Compliance with the continuing listing requirements of the SPSE will be the responsibility of the Compliance Officer Waisale Iowane.
- All significant market announcements will be reviewed by the Executive team, and all market announcements will be signed off by the Board.

#### **Principle 6 - Promote Ethical and Responsible Decision-Making**

- The Company has a Code of Ethics which defines the Company's values and policies, and dictates the behavior and decision-making of directors and officers.
- The Company has a Code of Conduct for the Prevention of Insider Trading which restricts the ability of directors and officers to trade on the basis of unpublished price sensitive information.

#### **Principle 7 - Register of Interests**

- The Company maintains a register of interests for directors which is maintained by the Compliance Officer.

#### **Principle 8 - Respect Rights of Shareholders**

- All shareholder queries are directed to the Company Secretary who is responsible for replying to and addressing issues raised. Shareholders are encouraged to raise any matters they see fit with the Company Secretary.
- Aside from attendance at the AGM, shareholders will be able to submit written questions to the AGM via the Company Secretary.
- The Company also maintains a website and this will be regularly updated with any market announcements made by the Company once listed.

#### **Principle 9 - Accountability and Audit**

- Given the size and complexity of the organisation, the Company does not have an internal auditor.

- The Company has an external auditor to serve as an independent auditor of the Company's operations who also provide tax advisory services.
- In addition, the Company has an Audit Committee in place that meets quarterly, or more often as needs dictate.

**Principle 10 - Recognise and Manage Risk**

- The board requires that the management report provided to the Board every month contain a list of risks and opportunities. A risk register is maintained by the company of all those risks identified and potential risks that the company might be exposed to with regard to the ever changing business environment, legislation and all other known risks which are identified in detail under Section 9 of this document.

## 9 Risk Management

FBIL's risk management strategy comprises three main elements:

- Continuous identification and assessment of risks
- Cost-effective use of resources to prevent risks from eventuating or to control any negative impacts
- Managing risk to maximise the realisation of opportunities

The Company will continue to manage all risks diligently with regular reviews of potential risk levels and mitigation strategies and to ensure adequate contingency plans are in place.

Below are some of the main risk areas identified and existing mitigating factors already put in place.

### (i) Dependency on Parent Company

The company depends heavily on its parent company, SPFB in Japan, to market its services and find clients for study in Fiji. Currently over 95% of FBIL's students came through the SPFB pipeline.

#### *Mitigating Factors*

- Both FBIL and its parent company SPFB share mutual founding board members and shareholders consolidating interests and strategic direction.
- Both FBIL and its parent company SPFB are also held under a service agreement only recently renewed in January 2016 detailing each parties' complimentary obligations to each other. This contractual agreement expiring 31 December 2030 stipulates a 2-year prior notification should any party intend to modify or terminate the agreement.

### (ii) Fluctuations in Exchange Rates

Fluctuations in exchange rates may adversely affect the Company as the Fiji dollar-equivalent cost incurred and revenue earned from Japan and other source countries will fluctuate with exchange rates.

The Japanese Yen has generally strengthened against the Fiji dollar over the years adversely impacting FBIL's loan repayments to SPFB which is recorded in JPY.

#### *Mitigating Factors*

- The Company in 2016 entered into a hedging contract arrangement with its bankers to safeguard against fluctuations in the Japanese Yen to the Fiji dollar. The Board will continue to monitor the situation and ensure appropriate rates are selected when seeking quotes from its bankers upon receipt of funds from SPFB.
- In addition, the negative impact of a weakening Fiji dollar against the Yen is offset by the increased affordability of fees for the Japanese students, who make up more than 95% of the student roll. As a result, Fiji becomes an even more affordable destination to these students compared with other countries. This offset provides a natural hedge to currency fluctuations.

### (iii) Transfer Pricing

The Company is exposed to transfer pricing risk as highlighted by its auditors during the 2015 audit. The risk here relates to the Company receiving the majority of its service fees from its parent Company, SPFB, therefore opening it to scrutiny by regulators.

#### *Mitigating Factors*

- The company has in place an appropriate costing method which allows for a "cost plus method" on invoices raised to SPFB. Costings have been carefully reviewed by the Board.

- All issues in relation to pricing as a result of FBIL's relationship with SPFB are resolved under consultation with the Fiji Revenue and Customers Authority.

#### **(iv) Safety and Security**

The safety of international students living in Fiji is paramount and is an important factor in any student's decision to come to Fiji. An increase in Fiji's crime rates could adversely affect demand for FBIL's services by foreign students.

The Fiji 2015 Crime and Safety Report issued by the US Department of States and Bureau of Diplomatic Security continues to rate Fiji's crime and safety ratings as high. These reports are widely available online.

##### *Mitigating Factors*

- FBIL under an approved security activities license from the Ministry of Defense employs in-house security personnel covering all campus and dormitory boundaries whilst each host family providing homestay accommodation under agreement are vetted and periodically reviewed to stringent health, safety and social standards set by the Company.
- Students in induction are thoroughly engaged to understand Fiji in context with its culture, lifestyles and its laws and made to understand varying underlying risks in related aspects of their stay.
- Also available to students is a 24-hour support help-line with further extension to medical support and other services to students covered under FBIL's in-house insurance scheme.
- The Company adopts an interactive approach in regards to the safety of its students and has a support team in place to respond to varying degrees of risks based on feedback.

#### **(v) Loss of Key Personnel**

Human resources are FBIL's most important assets and as a result any losses of senior management could have a significant impact on the Company's ability to operate smoothly and maintain links between the Company, the parent company and students' families.

##### *Mitigating Factors*

- The Company continues to implement policies that encourage and foster staff retention by means of continuous training and development of current staff, competitive remuneration packages and performance based increments and bonuses.
- The Company is also in the process of mapping out succession plans within the business.

#### **(vi) Competition**

FBIL does not have any direct competition of significance in Fiji. Its main competitors are English language institutes established in other more-developed countries such as Australia, New Zealand, Ireland, UK, Canada, Hawaii and the Philippines. These countries can offer better facilities and services generally.

##### *Mitigating Factors*

- This risk is mitigated through FBIL's highly-competitive fees. An updated comparative analysis of the cost of living for studying abroad is always captured in the company's marketing handbook for potential students. This clearly highlights the reasonableness of the costs to students in Fiji.
- The recent weakening of the Fiji dollar against the Japanese Yen has also made Fiji a more affordable destination.

### **(vii) Changes in Tax Regulations or Their Interpretation**

The many changes in Fiji's tax laws in recent years is a source of uncertainty.

The Company suffered from the interpretation of value added tax (VAT) laws in 2012, resulting in the imposition of a significant VAT bill on income on which VAT had not been charged previously. Consequently, the fee structure had to change to accommodate these changes, with the expense passed on to students necessarily.

In 2016, the Company was hit by the introduction of the new environmental levy and an increase in service turnover tax from 5% to 10%.

#### *Mitigating Factors*

- The Company will continue to monitor tax regulations and adjust its pricing accordingly. It will also periodically review its tax accounting to ensure this is up-to-date with the latest regulations and interpretations.

### **(viii) Legal, Regulatory and Litigation risks**

Like any other business, FBIL is exposed to legal, regulatory and litigation risks that may hinder, restrict its operations to a degree and/or damage its reputation as an English Language Institute.

#### *Mitigating Factors*

- In its function, the board charter recognises and empowers the Company's oversight committee to:
  - evaluate the Company's legal and regulatory obligations; and
  - Review, monitor, implement and enforce all systems of risk management and internal control, codes of conduct, legal and regulatory compliances.
- With a support team led by Mr. Nagasaki, FBIL ensures that it engages with its students to help them fully appreciate the experience of studying in Fiji. FBIL uses this platform to proactively respond to students' needs and mitigate potential risks where the probability of occurrence is deemed high. This approach not only provides a high level of service to students, but also proactively minimizes litigation risk and other risks that could lead to reputational damage.

### **(ix) In-house Insurance risks**

Operating an In-house insurance business, although lucrative, bears an inherent degree of risk in terms of the insurance cover provided, its expected loss ratio and its actual incurred loss via claims requests in favour of the insured party.

#### *Mitigating Factors*

- Provision made in the Company's books for 25% of premiums to cater for risk of loss in terms of claims made in the insurers interests.
- Lower inherent risks of health and death claims given the demographics of the Company's Japanese clientele.
- Interactive support infrastructure in place with awareness, induction and a 24-hour, 7 days a week support help line.

### **(x) Natural Disasters**

Fiji is vulnerable to natural disasters, as underlined by Tropical Cyclone Winston in early 2016. Current students sometimes withdraw or shorten their programs after such disasters and some prospective students cancel enrolment.

However, it was pleasing to note that TC Winston's impact on FBIL was minor. The Lautoka campus came through unscathed while the Nadi dormitories sustained minor damages. Little change in the attitudes of both current and prospective students to studying with FBIL was noted and FBIL was therefore able to return to normal operations quickly following the cyclone.

*Mitigating Factors*

- FBIL liaises closely with relevant authorities in making sure that its buildings are OHS compliant and are able to withstand disasters such as cyclones.
- Students are also billeted in areas that are free from floods or in homes which are well secured.

## 10 Guide to Investors

The following questions and answers are provided as a guide and should not be taken as providing securities recommendations or investment advice. FBIL strongly recommends that you seek detailed advice from a licensed broker or investment adviser prior to making any investment decision concerning FBIL shares.

(i) **What does owning shares mean?**

Owning a share means you become a shareholder or part-owner of a company.

(ii) **What are my rights or entitlements as a shareholder?**

Your rights as a shareholder include:

- the right to participate in the profits of the company through dividends if and when dividends are declared;
- the right to any issuance of bonus shares (if issued) to capitalise retained earnings for re-investment back into the company;
- the right to attend and vote at shareholders' meetings; and
- the entitlement to the proceeds on a pro-rata basis rising out of the winding up of the company once all creditors are satisfied

(iii) **How can I buy or dispose shares?**

Any buying or selling of shares in companies listed on the South Pacific Stock Exchange ("SPSE") must be done made through a broker licensed by the Reserve Bank of Fiji. Your broker will charge a commission or brokerage fee for providing such service. However, you should be aware that the final decision on whether you want to buy or sell shares is entirely up to you. A broker can only offer you advisory services you require and cannot make the decision for you, therefore it is important that you know what your investment objectives are before seeking advice from a broker.

Your broker has a duty to act in good faith and in your best interest and:

- must exercise due skill, care and diligence;
- must follow your instructions and provide the best completion of your orders;
- must execute transactions only when you have given, and they have accepted a legally valid authority over your account;
- may recommend suitable investments to you taking into account your investment experience, objectives, risk tolerance, financial situation and needs; and
- must comply with all regulation requirements.

(iv) **How do I gain financially from owning shares?**

There are two financial benefits which may arise from the ownership of shares namely:

- *Income return* in the form of dividends paid on the shares; and
- *Growth return* in the form of capital growth if the share price rises

Note that the board of directors of a company will determine whether or not dividends are paid during or after each financial year based on various conditions. The amount of dividends may vary

from year to year or might not even be paid in any particular year. The share prices however, are dependent on many factors and may fluctuate up or down. In general, shares should not be considered as a short term investment.

(v) **How is a dividend declared and paid?**

The board of directors determine how much out of the company's profits is required for reinvestment in the company and how much can be reasonably paid out to the shareholders in the form of dividends. A final decision is then made on how much dividends to declare, accounting for various criteria and conditions. There is a set time period in which dividends once declared must be paid out to shareholders.

(vi) **What affects the share price?**

The share prices fluctuate up or down depending on the market and other internal and external such as:

- the financial performance of the company;
- the dividend policy of the company;
- profit outlook assessments for the company;
- the financial position of the company;
- the risk factors relevant to the company;
- changes in exchange rates and inflation; and
- movements in the general level of prices on the local and international share markets.

(vii) **When do I have to pay for the shares?**

The exchange of payment for shares listed on the SPSE is done 3 days after a trade is completed (this is referred to as "T + 3"). Trading is carried out by your licensed broker who will send you a contract note confirming the details of the trade including the name and quantity of shares purchased, the price and the commissions payable. When buying shares, your payment will be required by the broker prior to the trade. When selling shares, payment to you will occur after the trade.

# 11 Additional Information

The information contained herein is for compliance purposes.

(i) Share option

The company has not granted or intends to grant to any person or corporation an option to subscribe for shares in the company.

(ii) Class of shares

The share capital of the company is in a single class of shares (Class A ordinary shares)

(iii) Shares issued other than in cash

There are no shares or debentures of the company which within two years preceding the date of this statement have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash.

(iv) Documents available for inspection

Copies of the following documents are available for inspection by shareholders during normal office hours (9am to 5pm) at the registered office of the Company:

*Company Details*

- Certificate of Incorporation;
- Memorandum and Articles of Association of the company;
- Foreign Investment Registration Certificate (FIRC);
- Certificate of Registration with the Fiji Teachers Registrations Board (FTRB);
- Reserve Bank of Fiji (RBF) approval letters;
- Company structure;
- Shareholders list;
- Business license;
- Approved campus security activities license;
- Corporate governance policies;
- Details of directors and key management personnel;
- Directors register of interest forms and the 'Fit and Proper' form required under the Capital Markets Policy Statement No 6.;
- Service Agreement with parent company 'South Pacific Free Bird Co. Ltd';
- Memorandum of Understanding with Ba Provincial Holdings Company Limited; and
- Other material contracts.

*Financial details*

- Audited financial statements of the company for the previous 3 years;
- Six month reviewed special purpose financial statements by KPMG;

- Projected audited management cash flows and balance sheet for the 3 years ending 31<sup>st</sup> December 2016, 2017, 2018.
- (v) Auditors and independent accountants
- The auditor of the Company is KPMG and Ernst & Young have acted as independent accountants. They both have given and have not, before the delivery of a copy of this Offer Document for registration, withdrawn their written consents for the inclusion of their name as auditors or independent accountants of the Company in the form and context in which it is included.
- (vi) Solicitors
- The Company solicitor is Reddy and Nandan Lawyers who have given and have not, before the delivery of a copy of this Offer Document for registration, withdrawn their written consents for the inclusion of their name as solicitors of the Company in the form and context in which it is included.
- (vii) Independent valuer
- An independent valuation was conducted by PricewaterhouseCoopers (PwC) for use solely by FBIL. PwC's related company, PricewaterhouseCoopers Advisory Ltd, is licensed as an Investment Advisor by the Reserve Bank of Fiji. PwC have given and have not, before the delivery of a copy of this Offer Document for registration, withdrawn their written consent for the inclusion of their name as independent valuer in the form and context in which it is included.
- (viii) Pending litigation
- There is no current material litigation or arbitration, including those pending or threatened, nor any facts likely to give rise to any proceedings which may materially affect the business/financial position of the Company.
- (ix) Subsidiaries
- The Company has no subsidiaries.
- (x) Material acquisitions and expansion
- The Company established its in-house insurance scheme in February 2016. Other than this, there have not been any material acquisitions and or expansions by the Company since the last balance date of 31 December 2015.
- (xi) Promoters interest
- The promoter of the listing of the Company and the quoting of its ordinary shares pursuant to this Offer Document is the existing Founder Shareholders of FBIL.
- (xii) Share valuation
- An independent valuation was conducted by PricewaterhouseCoopers (PwC) for use solely by FBIL and not for any prospective investor or third party. This was an indicative desktop valuation as at 31 October 2016 and the value was at this specific point in time. It must be recognized that

fair market value changes from time to time, not only as a result of internal business factors, but also because of external factors.

The valuation used the “Capitalisation of Future Maintainable Profits” (FMP) approach and was based on the:

- Historical financial performance of the Company and likely trends from its existing business model; and
- The earnings expectations from the Company’s new line of business: the offering of travel insurance to its Japanese student base.

PwC’s valuation was based on information provided by FBIL’s management and no verification of information was undertaken. The Directors are responsible for the information provided.

The report was not prepared with the interests of any prospective investor or third parties in mind, and consequently will not contain all the information and explanations any other person may require. No warranty is given by PwC.

Further, the report cannot in any way serve as a substitute for other enquiries and procedures any prospective investor or third party would (or should) otherwise undertake for the purpose of satisfying themselves regarding FBIL’s financial condition, value or for any other purpose in connection with the transaction. Prospective investors and any other persons are strongly encouraged to undertake their own due diligence and seek independent advice as appropriate.

Neither PwC nor any partner, officer, member or employee of PwC undertakes any responsibility arising in any way whatsoever to FBIL, any prospective investor or any other person in respect of the indicative desktop valuation report, including any errors or omissions therein, arising through negligence or otherwise.

(xiii) Other information

There is no other information that the Company believes to be necessary or material enough and important that needs to be disclosed in this Offer Document that a prospective investor needs to pay attention to.

## 12 Further Notice to Investors

Investors needs to be advised that no person other than the Company is authorised to give any information or to make any representation that is not contained in this Offer Document ("OD") and such information not contained herein shall not be relied upon as having being authorised by the aforementioned parties.

The information contained in this OD shall under any circumstances imply that it is correct as of any date subsequent to the date hereof or constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs, conditions and prospects of the Company of the shares since the date of this OD.

Should there be any material change that occurs and are required to be disclosed by law, the RBF and or SPSE, if so required, will issue and lodge an amendment to this OD or provide a reasonable supplementary document or replacement document and take immediate steps to comply with the said requirements.

Investors should take every necessary notice of such announcements and documents upon its release. The release of such documents and announcements shall be deemed to have notice of such changes. All investors should be aware that you may be required to bear the risk of an investment in the shares for an indefinite period of time.

No representation or undertaking is taken by either the Company, its Sponsor/Lead Manager or their respective affiliates, directors, officers, employees, agents, representatives or advisors to any investor in the shares regarding the legality of an investment by such investor under appropriate legal, investment or similar laws.

The OD is solely issued for the purpose of the offering and all investors in the shares should not construe the contents contained herein or its appendices as legal, business financial or tax advice. All investors are encouraged to seek their own professional advisers as to the legal, tax, business, financial and all other related aspects relating to an investment in the shares of the Company.

The distribution of this OD and the offering, purchase, sale or transfer of the shares may be restricted by law in certain jurisdictions and accordingly all investors must at their own expense make themselves known of such restrictions and without the liability to the Company or the Sponsor/Lead Manager.

The OD does not constitute an offer of, or an offering to purchase, any shares in any jurisdiction in which such offer or offering would be unlawful and any person in possession of this OD shall not circulate to any other person, reproduce or otherwise distribute this OD or any information contained herein for any purpose other than intended for by the Company or its Sponsor/ Lead Manager.

### Disclaimer on future projections

The OD contains several information that relates to future projections and or statements. Whilst due care has been exercised in deriving such judgements or projections, actual results or performances in relation to such assumptions might actually differ and therefore, all investors are advised to exercise precaution upon reliance on such assumptions and or projections. It is advised that all investors must, at their own expense, perform their own due diligence on these projections and assumptions prior to making any decision of purchase of shares. The assumptions have been drawn up based on current existing market conditions, existing regulatory and tax environment and laws, current trend in foreign currency fluctuations and other conditions deemed necessary by the Company.

As a result of the risks and uncertainties that may cause these future projections to differ from the actual performance or achievements whether materially or otherwise, it is strongly advisable that no undue reliance is placed on such statements.

## 13 Corporate Directory

Company Details:	Free Bird Institute Limited Company No. RCBS2010L3395 FIRC No: 10-0117 Registered and Head-Office: Office 1, Level 1 Lot 13 Commercial Street, Concave Subdivision Namaka Nadi Fiji Place of Incorporation: Registrar of Companies, Suva, Fiji Date of Incorporation: 12/08/2010 Phone: (+679) 766 6603 Fax: (+679) 766 6607 Email: <a href="mailto:global@fbi.ac.fj">global@fbi.ac.fj</a>
Directors:	Mr. Hiroshi Taniguchi                      Director   CEO Mrs. Mereseini Baleilevuka              Director   COO Mr. Yoshinobu Higashi                    Director Mr. Waisale Iowane                        Director   CFO Mr. Raman Velji                              Director Adi Litia Qionibaravi                        Director
Company Secretary:	Mrs. Tupou Ma'ata Office 1, Level 1 Lot 13 Commercial Street, Concave Subdivision Namaka Nadi Fiji
Auditors:	KPMG Jetpoint Complex Martintar Nadi Fiji
Independent Accountants:	Ernst & Young Chartered Accountants Level 7, Pacific House Suva Fiji
Independent Valuer:	PricewaterhouseCoopers

Investment Advisor: 52 Narara Parade  
Lautoka  
Fiji  
Kontiki Capital Limited  
Level 2, Plaza 1, FNPF Boulevard  
33 Ellery Street  
Suva  
Fiji

Solicitors: Reddy & Nandan Lawyers  
Raojibhai Patel Street  
Suva  
Fiji

Bankers: Australia and New Zealand Banking Group Limited,  
Main Street  
Nadi  
Fiji

Share Registry: Central Share Registry Limited  
Level 2, Plaza 1, FNPF Boulevard  
33 Ellery Street  
Suva  
Fiji

Capital Markets Regulator: Reserve Bank of Fiji  
Tower 4, RBF Building  
Suva  
Fiji

Securities Exchange: South Pacific Stock Exchange  
Level 2, Plaza 1, FNPF Boulevard  
33 Ellery Street  
Suva  
Fiji

## 14 Statement by the Directors

After due enquiry, the Directors confirm that in their opinion, during the period between the date of the last audited financial statements for the year ended 31 December 2015 of the Company and the date of the Offer Document, there have arisen no circumstances that would materially adversely affect:

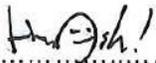
- (a) the trading or profitability of the Company; or
- (b) the value of its assets; or
- (c) the Company having sufficient working capital to last at least 12 months and to pay its liabilities due within the next 12 months.

After making due enquiry, the Directors and senior management named in Part 2 of this document, meet the requirements under the Reserve Bank of Fiji's Capital Markets Supervision Policy Statement No. 6 "Fit and Proper Requirements for Licensed Intermediaries and Issuers". The Directors and senior management having been gauged accordingly, are clear of submissions of any kind under bankruptcy or insolvency laws current or prior to their engagement with the Company. It has also been found that the Directors and senior management have neither been convicted or subject to any criminal proceedings, order, judgement or ruling of any court of competent jurisdiction or the RBF to have acted partially or fully in misconduct of any kind.

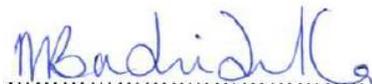
The Directors have viewed and approved this Offer Document. They collectively and individually accept full responsibility for the accuracy of the information therein. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm that there is no false or misleading statement or other facts which if omitted, would make any statement in this Offer Document false or misleading.

The directors undertake that they will advise the SPSE and RBF of any material change with regards to the information contained in this Offer Document after the date hereof at any time prior to listing.

This Offer Document is dated on the 30<sup>th</sup> day of December, 2016 and is signed and authorised by all the Directors of Free Bird Institute Limited.



Mr. Hiroshi Taniguchi



Mrs. Mereseini Baleilevuka



Mr. Yoshinobu Higashi



Mr. Waisale Iowane



Mr. Raman Velji



Adi Litia Qionibaravi