

Centuria NZ Healthcare Property Fund Limited

Prospective financial information, reconciliation of non-GAAP  
financial information to GAAP financial information and  
supplementary financial information

## Prospective financial Information

The prospective financial statements of Centuria NZ Healthcare Property Fund Limited (the "Company") comprise the following Prospective Financial Information ("PFI") and other PFI related information for the 13 months and 18 days ending 31 March 2023 ("FY23") and the 12 months ending 31 March 2024 ("FY24"):

- Prospective statement of comprehensive income;
- Prospective statement of changes in equity;
- Prospective statement of financial position;
- Prospective statement of cash flows;
- Notes and assumptions for the prospective financial statements;
- Other PFI related information:
  - Sensitivity analysis for the PFI;
  - Reconciliation of non-GAAP financial information; and
  - Financial measures for the Company's borrowings (non-GAAP).

This document should be read in conjunction with the Product Disclosure Statement ("PDS") dated 1 March 2022 and other information provided on the Offer Register (offer number OFR13279). Capitalised terms used but not defined in this document have the meanings given to them in the PDS.

Financial information is presented in New Zealand dollars and has been rounded to the nearest thousand.

### Basis of preparation and presentation

The PFI has been prepared in accordance with the requirements of Financial Reporting Standard 42: Prospective Financial Statements ("FRS-42"), as required by clause 53(1)(c) of Schedule 3 to the Financial Markets Conduct Regulations 2014.

The PFI has been prepared in accordance with New Zealand generally accepted accounting practices ("GAAP").

The PFI, and underlying best-estimate assumptions, have been prepared by management and approved by the Company's Board of Directors (the "Board") specifically for the purpose of a Public Offer of shares in the Company (the "Offer").

The Board has given due care and attention to the preparation of the PFI (including the assumptions underlying it) and authorised the issue of the PFI as at 1 March 2022 for the purpose stated above. The PFI may not be suitable for any other purpose. The Company was incorporated on 11 February 2022, which results in FY23 covering a 13 month and 18 day period. The PFI is based on the Board's assessment of events and conditions existing at the date of the PDS, the accounting policies and best-estimate assumptions.

The receipt of subscriptions from investors and the allotment of Shares is assumed to take place on 20 April 2022.

There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The Company will present a comparison of the PFI with actual financial results in its financial statements for FY23 and FY24, as required by Regulation 64 of the Financial Markets Conduct Regulations 2014 and Financial Reporting Standard 44 New Zealand Additional Disclosures.

PFI, by its nature, is inherently uncertain. It involves predictions of future events that cannot be assured as well as risks and uncertainties which are often beyond the control of the Company. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Various risk factors and the management thereof may influence the success of the Company's business - with specific reference to Section 8 "Risks to Centuria NZ Healthcare's business and plans" in the PDS. Accordingly, actual results may vary from the PFI, and those variations may be significantly more or less favourable. The Board cannot and do not guarantee the achievement of the PFI.

### Financial periods

The PFI covers the following reporting periods:

- Forecast financial information for FY23 (13 months and 18 days ending 31 March 2023, commencing on 11 February 2022 being the date that the Company was incorporated); and
- Forecast financial information for FY24 (12 months ending 31 March 2024).

As the period ending 31 March 2023 will be the first financial period of the Company, there are no comparatives available.

### Explanation of certain non-GAAP financial measures

Refer to section 4 "Reconciliation of non-GAAP financial information" for a description and reconciliation of each adjustment to GAAP financial information and Section 5 "Financial measures for the Company's borrowings (non-GAAP)" which sets out the loan to value and interest cover ratios.

## Prospective statement of comprehensive income

	Note	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
		\$000	\$000
Gross rental income	1.2.3	11,720	12,612
Gross property income		11,720	12,612
Property operating expenses	1.2.3	(73)	(80)
Net property income		11,647	12,532
Property investigation expenses	1.2.3	(47)	(51)
Administration expenses	1.2.3	(334)	(351)
Management fees	1.2.3	(467)	(493)
Operating profit before finance expenses and fair value movements		10,799	11,637
Finance expenses	1.2.7	(6,457)	(4,050)
Operating profit before fair value movements		4,342	7,587
Change in fair value of investment property	1.2.2	(544)	(1,599)
Change in fair value of interest rate swaps	1.2.7	(726)	(1,065)
Operating profit before tax		3,072	4,923
Income tax	1.2.11	-	-
Net profit after tax		3,072	4,923
Other comprehensive income		-	-
Total comprehensive income attributable to shareholders		3,072	4,923

These prospective financial statements should be read in conjunction with the notes on pages 6 to 18.

## Prospective statement of changes in equity

		Issued capital	Retained earnings/ (Accumulated losses)	Total
	Note	\$000	\$000	\$000
Equity as at 11 February 2022		-	-	-
Shares issued		121,000	-	121,000
Issue costs	1.2.10	(6,973)	-	(6,973)
Total comprehensive income for the period		-	3,072	3,072
Dividends to shareholders		-	(5,714)	(5,714)
Equity as at 31 March 2023	1.2.8	114,027	(2,642)	111,385
Equity as at 1 April 2023		114,027	(2,642)	111,385
Total comprehensive income for the year		-	4,923	4,923
Dividends to shareholders		-	(6,050)	(6,050)
Equity as at 31 March 2024	1.2.8	114,027	(3,769)	110,258

These prospective financial statements should be read in conjunction with the notes on pages 6 to 18.

## Prospective statement of financial position

	Note	As at 31 March 2023 \$000	As at 31 March 2024 \$000
<b>Current assets</b>			
Cash and cash equivalents		782	903
Fair value of interest rate swaps	1.2.7	1,065	843
<b>Total current assets</b>		<b>1,847</b>	<b>1,746</b>
<b>Non-current assets</b>			
Investment property	1.2.2	194,875	194,875
Fair value of interest rate swaps	1.2.7	910	67
<b>Total non-current assets</b>		<b>195,785</b>	<b>194,942</b>
<b>Total assets</b>		<b>197,632</b>	<b>196,688</b>
<b>Current liabilities</b>			
Trade and other payables	1.2.6	1,129	1,161
<b>Total current liabilities</b>		<b>1,129</b>	<b>1,161</b>
<b>Non-current liabilities</b>			
Borrowings	1.2.7	85,118	85,269
<b>Total non-current liabilities</b>		<b>85,118</b>	<b>85,269</b>
Equity		111,385	110,258
<b>Total liabilities and equity</b>		<b>197,632</b>	<b>196,688</b>

These prospective financial statements should be read in conjunction with the notes on pages 6 to 18.

## Prospective statement of cash flows

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
Note	\$000	\$000
<b>Cash flows from operating activities</b>		
Cash was provided from :		
Rental receipts	10,067	10,958
Property operating expense recoveries	50	55
Goods and services tax received	124	4
	10,241	11,017
Cash was applied to :		
Payments to suppliers	(724)	(972)
Interest paid	(3,098)	(3,874)
	(3,822)	(4,846)
<b>Net cash flow from operating activities</b>	<b>6,419</b>	<b>6,171</b>
<b>Cash flows from investing activities</b>		
Cash was applied to :		
Acquisition of investment property	(192,239)	-
Transaction costs in relation to purchase of property	(1,577)	-
Purchase of swap	(2,657)	-
Interest on swap purchase fee	(44)	-
	(196,517)	-
<b>Net cash flow used in investing activities</b>	<b>(196,517)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Cash was provided from :		
Investor capital	121,000	-
Borrowings drawn	85,500	-
	206,500	-
Cash was applied to :		
Dividends and PIE tax	(5,210)	(6,050)
Issue costs	1.2.10 (6,973)	-
Underwriting loan fee	(2,904)	-
Borrowing costs	(533)	-
	(15,620)	(6,050)
<b>Net cash flow from financing activities</b>	<b>190,880</b>	<b>(6,050)</b>
Net increase/(decrease) in cash and cash equivalents	782	121
Cash and cash equivalents at start of period	-	782
<b>Cash and cash equivalents at end of period</b>	<b>782</b>	<b>903</b>

These prospective financial statements should be read in conjunction with the notes on pages 6 to 18.

## Notes and assumptions for the prospective financial statements

The purpose of the prospective financial statements is to assist investors in assessing the viability of the investment and return on funds invested. The PDS and the PFI contained in it may not be appropriate for any other purpose.

The Company was incorporated on 11 February 2022 as a wholly owned subsidiary of Centuria Platform Investments Pty Limited ("CPIPL") and is domiciled in New Zealand. The Company will be a property investor that owns land and buildings located in New Zealand. The registered office of the Manager is situated at Level 2, Bayleys House, 30 Gaunt Street, Wynyard Quarter, Auckland 1010.

The prospective financial statements were authorised for issue on 1 March 2022. The Board is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. It is not intended for the PFI to be updated subsequent to issue.

### 1 Assumptions

The following general and specific assumptions have been adopted in preparing the PFI. The assumptions contained in this section should be read in conjunction with Section 8 "Risks to Centuria NZ Healthcare's business and plans" in the PDS.

#### 1.1 General assumptions in respect of the PFI

- **Economic environment** - there will be no material changes in the general economic environment for the markets in which the Company operates.
- **COVID-19** - there will be no material impact on the Company from COVID-19 and any related lockdowns or restrictions. The Tenant does not have the right to abatement of rent under any circumstances, including in the case of restricted access due to COVID-19.
- **Political, legislative and regulatory environment** - there will be no material change to the political, legal or regulatory environments in which the Company operates.
- **Markets operating in** - the Company will operate in New Zealand over the prospective periods.
- **Competitive environment** - there will be no material change to the competitive dynamics of the market in which the Company operates, including any material change in competitor activity. It is assumed that no new entrants or exiting current participants will materially change the competitive environment in which the Company operates.
- **Industry conditions** - there will be no change in the general industry structure, third party relationships, supply of rental property or general employment conditions.
- **Tenant and suppliers** - existing contractual, business and operational relationships are assumed to continue throughout the prospective periods. There will be no unanticipated loss of key tenants, suppliers, or agents.
- **Disruption to operations** - there will be no material disruption to operations such as natural disasters, fires or explosions and normal hazards associated with operating the Company's business.
- **District health boards amalgamation** - there will be no impact on the tenant's income profile as a result of the amalgamation of New Zealand district health boards.
- **Legal exposure** - there will be no unexpected litigation or contractual disputes.
- **Property / business acquisitions or disposals** - there will be no material acquisitions or disposals by the Company other than those detailed within the PFI.
- **Interest rate environment** - there will be no material and/or sudden changes to the interest rate environment.
- **Financial Reporting Standards** - there will be no change in financial reporting standards or accounting interpretations which would have a material effect on the Company.
- **Management of the Company** - the Company will be managed by Centuria Funds Management (NZ) Limited (the "Manager"), who will be sufficiently resourced to manage the Company with no significant changes to key personnel involved in management of the Company.

- **Taxation** - there will be no material change to the tax rates or laws (including in relation to GST). It is assumed that there will be no change to the existing legislation regarding taxation of capital gains on investment properties and that the Company will depreciate the acquired assets for income tax purposes. It is assumed the Company will maintain its portfolio investment entity status throughout the PFI period.
- **Inflation** - CPI is assumed to be 2.90% p.a. for the 13 months and 18 days ending 31 March 2023 and 2.10% p.a. for the 12 months ending 31 March 2024. This is based on the forecast in the Reserve Bank of New Zealand Monetary Policy Statement issued on 24 November 2021.

## 1.2 Specific assumptions

### 1.2.1 Equity raise, offer costs and settlement

It is assumed that \$121,000,000 of equity is raised in the Offer and \$85,927,000 of debt is drawn to facilitate the acquisition of 23 aged care facilities (the "Initial Properties") and to pay the associated Offer and establishment costs. It is assumed that the \$121,000,000 of new equity is allotted on 20 April 2022.

It is assumed that the Company acquires the Initial Properties during the PFI period. The assumed purchase price is based on an unconditional sale and purchase agreement. Pursuant to the sale and purchase agreement, the acquisition of the Initial Properties is expected to settle on 20 April 2022.

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
<b>Use of funds</b>		
Investment property	192,239	-
Capitalised acquisition costs	1,577	-
Costs of establishment and issuing equity	9,921	-
Borrowing costs	533	-
Purchase of swap	2,657	-
<b>Total</b>	<b>206,927</b>	<b>-</b>
<b>Source of funds</b>		
Equity	121,000	-
Borrowings	85,927	-
<b>Total</b>	<b>206,927</b>	<b>-</b>

Offer and establishment costs are assumed to be paid on 20 April 2022.

## 1.2.2 Investment property

### Sale and leaseback

The Initial Properties are being acquired as part of a sale and leaseback transaction with Heritage Lifecare. Determining if control of the assets has transferred to the Company and therefore whether the transaction should be accounted for as a lease or a financing arrangement is a material judgement.

The following factors have been considered when determining if control of the assets has transferred:

- The Company determines if assets are sold in the future and the sale price. Upon any sale, the lease would transfer to the purchaser. The Tenant's right of first refusal to purchase an asset only applies during the lease term (including the term of any right of renewal that is exercised) and is contingent on the Company deciding to sell the asset, it is not a put or call option at a pre-agreed time/price.
- The Tenant has the right to use the asset to produce goods or provide services. However, this is subject to compliance with restrictions in the Lease, including the permitted use as healthcare and/or elderly accommodation and a restriction on operating a retirement village at stand-alone care home properties.
- There are restrictions on the Tenant's ability to assign Leases without approval from the Company.
- The assets have long economic lives that extend beyond the lease term, including land which has indefinite economic life.
- The Company has the residual value risks and rewards from the assets following settlement.
- The Company is able to pledge the assets to secure its bank borrowings as it holds legal title to the assets and controls any sale process.
- Rent is subject to a market review on each of the lease renewal dates.

Based on the above factors, the Company has determined that control of the assets has transferred, and the transaction has been recognised as a purchase of investment property and subsequent leaseback for accounting purposes.

### Investment property

	13 months and 18 days ending 31 March 2023 \$000	12 months ending 31 March 2024 \$000
<b>Balance at beginning of period</b>	-	194,875
Purchase price of investment property	192,239	-
Transaction costs to purchase investment property	1,577	-
Adjustment due to capitalised fixed rental growth	1,603	1,599
Change in fair value of investment property	(544)	(1,599)
<b>Total investment property</b>	<b>194,875</b>	<b>194,875</b>

On settlement date, 20 April 2022, the value of the Initial Properties is assumed to equal cost, plus any directly related transaction costs.

On 31 March 2023 and 31 March 2024 it is assumed that the Initial Properties will be revalued, with the fair value assumed to represent the independent valuation of \$194,875,000 commissioned as part of due diligence. The independent valuation for the Initial Properties was completed by CBRE as at 22 December 2021, with their report being issued on 16 February 2022. No additional valuations are assumed as any changes in underlying valuation assumptions cannot be accurately predicted.

When calculating the unrealised movement in the fair value of investment property, adjustments have been made for the movement in the value of fixed rental growth accruals.

The actual movements in fair value are likely to be different to what is assumed in the PFI as the actual valuations will be based on rents, market yields and other contributing factors as at the relevant valuation dates. The Board notes a degree of caution should be applied when referencing valuations in the current economic climate.

The valuation draws attention to market volatility and uncertainty with COVID-19, stating:

*"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a Global Pandemic on the 11th March 2020, has caused uncertainty in both local and global market conditions. The longer-term economic impact COVID-19 will ultimately have on the residential, retirement and aged care sectors in New Zealand is currently unknown and will largely depend on both the scale and longevity of the outbreak. Given the uncertainty, a degree of caution should be exercised when relying upon our valuation."*

No further investment property acquisitions, disposals or developments are assumed during the PFI period.

### 1.2.3 Revenue and expenses

#### Rental income

The table below summarises the forecast lease income for the PFI period.

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
Contracted rental income	10,067	10,958
Property operating expense recoveries	50	55
Adjustment due to fixed rental growth	1,603	1,599
<b>Total rental income</b>	<b>11,720</b>	<b>12,612</b>

Recognition of lease income is based on classifying the Leases as operating leases. The Leases have been classified as operating leases under NZ IFRS 16 Leases as substantial risks and rewards incidental to ownership of the Initial Properties remain with the Company, including valuation movement and the residual value. The present value of the lease payments is not considered to represent substantially all of the fair value of the Initial Properties and the lease term is not considered to be for the major part of the economic life of the Initial Properties.

Rental income has been forecast based on the agreed Leases with the Tenant. It is assumed that there is no tenant default and there are no delays in receipt of debtors.

Rental income is assumed to commence on 21 April 2022, being the day following settlement. The Leases provide for CPI rent reviews on each anniversary of the commencement date. The PFI assumes a 2.90% rental increase on 18 April 2023 (being the first anniversary of the commencement date for the Leases).

#### Property operating expenses

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
<b>Recoverable property operating expenses</b>		
Property management fees	50	55
<b>Total recoverable property operating expenses</b>	<b>50</b>	<b>55</b>
<b>Non-recoverable operating expenses</b>		
Health and safety inspections	23	25
<b>Total non-recoverable property operating expenses</b>	<b>23</b>	<b>25</b>
<b>Total property operating expenses</b>	<b>73</b>	<b>80</b>

Each of the Leases is structured as a Triple Net Lease where the tenant is responsible for all operating and capital expenses including rates, utilities, property insurance, repairs and maintenance and property management. Any elements of operating expenses which are invoiced to the Company, as the landlord, are recoverable from the tenant.

It is assumed that all operating costs are invoiced directly to the tenant, with the exception of property management fees which are assumed to be invoiced to the Company and recovered from the tenant.

Property management fees and health and safety inspections have been forecast based on quotes provided by third party property managers.

It is assumed that all operating costs recovered from tenants will be paid on time and that there will be no creditors associated with these at 31 March 2023 and 31 March 2024.

#### Property investigation expenses

Expenses relating to due diligence on property acquisitions that do not proceed have been assumed, including legal and other consultancy fees. These have been assumed based on the Manager's experience from managing similar funds. No investment property acquisitions in addition to the acquisition of the Initial Properties are assumed during the PFI period.

#### Administration expenses

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
Valuation fees	75	77
Audit fees	80	82
Registry fees	23	24
Directors' fees	71	76
Insurance	33	36
Legal, tax, security trustee and other consultancy fees	52	56
<b>Total administration expenses</b>	<b>334</b>	<b>351</b>

The above administration fees have been assumed based on quotes received and the Manager's estimates and experience from managing similar funds.

#### Auditor's remuneration

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
Financial statements audit	80	82
<b>Total auditor's remuneration</b>	<b>80</b>	<b>82</b>

Financial statements audit costs are based on a quote received.

#### Fees paid to the Manager

The table below summarises the management fees that are assumed in the PFI period.

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
<b>Management fees</b>		
Fund management fees	467	493
<b>Total</b>	<b>467</b>	<b>493</b>

The Manager shall be entitled to charge an annual management fee equal to:

- 0.25% per annum (plus GST) of the average month-end total asset value of the Company for so long as the Healthcare Portfolio comprises only the Initial Properties.
- If additional properties to the Initial Properties are acquired:
  - 0.25% per annum (plus GST) of the average month-end asset value of the Initial Properties; plus
  - Up to 0.50% per annum (plus GST) of the average month-end total asset value of the Company (excluding the Initial Properties).

Fund management fees are payable monthly in arrears.

A performance fee is payable if a specified level of outperformance is achieved by the Company, as set out in the Management Agreement. It is assumed that no performance fee is payable during the PFI period.

#### 1.2.4 Reconciliation of the net profit after tax to the net cash flow from operating activities

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
<b>Net profit after tax</b>	3,072	4,923
Adjustments for:		
Change in fair value of investment property	544	1,599
Change in fair value of interest rate swaps	726	1,065
Adjustment due to capitalised fixed rental growth	(1,603)	(1,599)
Amortisation of capitalised borrowing costs	151	151
Underwriting Loan fee	2,904	-
Changes to assets and liabilities relating to operating activities:		
Increase/(decrease) in trade and other payables	625	32
<b>Net cash flow from operating activities</b>	<b>6,419</b>	<b>6,171</b>

#### 1.2.5 Trade and other receivables

It is assumed that the Tenant does not default, and that there are no delays in receipt of debtors, therefore, no trade receivables balances are assumed during the PFI period.

#### 1.2.6 Trade and other payables

	As at 31 March 2023	As at 31 March 2024
	\$000	\$000
<b>Trade and other payables</b>		
Accrued expenses	196	199
Accrued interest	305	330
Dividends payable	504	504
GST payable	124	128
	<b>1,129</b>	<b>1,161</b>

#### 1.2.7 Financing

The Company intends to establish loan facilities with ANZ Bank New Zealand Limited ("ANZ") and Industrial and Commercial Bank of China (New Zealand) Limited ("ICBC"), based on credit approved offers received, to facilitate the acquisition of the Initial Properties and to pay the associated offer and establishment costs alongside the equity raise.

The facility limits and maturity dates are shown below. The facilities will be interest only and no principal will be required to be repaid during the initial terms of the loans.

The initial loan facility drawdown of \$85,927,000 is assumed to reduce to \$85,500,000 in the month following Settlement and then remain at this level.

Drawings and repayments are assumed to be made monthly based on working capital requirements.

Borrowing costs are estimated at \$533,000. These costs are based on credit approved offers, bank agreements and legal fee quotes. These will be amortised over the period of the borrowings to which they relate.

## Borrowing summary

	As at 31 March 2023	As at 31 March 2024
	\$000	\$000
<b>Loan balance</b>		
Opening balance	-	85,500
Net drawdown/(repayment)	85,500	-
<b>Closing balance</b>	<b>85,500</b>	<b>85,500</b>
Capitalised borrowing costs	(382)	(231)
<b>Borrowings</b>	<b>85,118</b>	<b>85,269</b>

## Composition of loan facilities

### ANZ

Maturity date	20-Apr-25	20-Apr-25
Loan balance	43,750	43,750
Facility limit	43,750	43,750

### ICBC

Maturity date	20-Apr-26	20-Apr-26
Loan balance	41,750	41,750
Facility limit	43,750	43,750

## Covenants

Loan to value ratio (LVR) not to be greater than	52.5%	52.5%
Interest coverage ratio (ICR) not to be less than	2.00 times	2.00 times

## Loan security

The loans are secured by:

- First ranking mortgages over the freehold titles to the Healthcare Portfolio;
- First ranking general security deed over all assets of the Company;
- First ranking specific security deed over the Company's interests in each Lease, the side letter with the Tenant and the bank guarantees provided by each Tenant; and
- Deed of Covenant between each retirement village Statutory Supervisor and the Security Trustee.

## Finance expenses

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
Interest on bank loan*	2,498	2,943
Line fees on bank loan facility limit*	904	956
Amortisation of borrowing costs on bank loan	151	151
Underwriting Loan fee	2,904	-
<b>Net finance expense</b>	<b>6,457</b>	<b>4,050</b>
*Interest and line fees as a percentage of net property income	29.2%	31.1%

The interest rate on the loan is a combination of the margin for the relevant facility plus a base rate. The base rate has been fixed on \$85,500,000 of debt for three years by way of an interest rate swap. The forecast effective weighted average interest rate (including line fees and the interest rate swap) is assumed to be 4.16% p.a. for the period ending 31 March 2023 and 4.51% p.a. for the period ending 31 March 2024.

\$2,904,000 of the total underwrite fee has been allocated to the Underwriting Loan. The Underwriting Loan is assumed to not be drawn on and the Underwriting Loan fee has therefore been expensed. The terms of the underwriting agreement and the Underwriting Loan can be found in the PDS.

## Interest rate swaps

The Company manages its interest rate risk by using floating to fixed interest rate derivatives. Such interest rate derivatives have the economic effect of converting borrowings from floating to fixed interest rates. An interest rate swap contract on \$85,500,000 has been entered into for three years. An upfront fee of \$2,656,745 was paid for the interest rate swap as it was entered into at rates below the market swap rates at the time. The interest rate swap was entered into by Centuria Capital (NZ) Limited and will be novated to the Company on settlement, at which time the Company will reimburse Centuria Capital (NZ) Limited for the swap purchase fee with interest charged thereon.

The fair value of the interest rate swap held at 20 April 2022 is assumed to reduce over time as the swap reaches maturity and the unrealised asset is realised and received. It is assumed that there is no material divergence between the forward interest rate curve on which the swap is valued at the time the PFI was prepared and market rates over the PFI period. Therefore, other than the realisation of the unrealised asset, there is no further fair value adjustment in relation to the swap during the PFI period.

The table below summarises the fixed base rate over the term of the swap.

	Notional amount \$000	Start date	End date	Fixed base rate (p.a.)
Year 1	85,500,000	20-Apr-22	19-Apr-23	1.60%
Year 2	85,500,000	20-Apr-23	19-Apr-24	1.95%
Year 3	85,500,000	20-Apr-24	19-Apr-25	2.30%

## 1.2.8 Equity and dividends

It is assumed that 121,000,000 shares are issued under the Offer at \$1.00 per share with a 20 April 2022 allotment date.

Dividends are forecast to be paid at an annualised rate of 5.00 cents per share from 21 April 2022. Dividends are assumed to be paid monthly in arrears.

Dividends will be declared at the Board's discretion based on the Company's financial performance and solvency requirements. The dividend policy is to pay out between 90% to 110% of Adjusted Operating Profit (non-GAAP), which is outlined in section 4 of the PFI. The policy may change from time to time.

	13 months and 18 days ending 31 March 2023 \$000	12 months ending 31 March 2024 \$000
Opening balance	-	114,027
Share capital issued	121,000	-
Offer costs	(6,973)	-
<b>Share capital</b>	<b>114,027</b>	<b>114,027</b>

The Company's objective is to continue as a going concern and maintain optimal returns to investors. As the market is constantly changing, the Company will consider capital management initiatives, such as changing the level of dividends paid, sourcing additional borrowings or raising additional equity if required.

## 1.2.9 Related party transactions

The Company will be managed by Centuria Funds Management (NZ) Limited, a wholly owned subsidiary of Centuria Capital Limited.

### Transactions with related parties

	13 months and 18 days ending 31 March 2023	12 months ending 31 March 2024
	\$000	\$000
Fund management fees	467	493
Establishment fee	3,845	-
Underwrite fee	3,630	-
Directors fees	71	76
Interest on deposit	311	-
Interest on swap purchase fee	44	-
<b>Total fees paid to related parties</b>	<b>8,368</b>	<b>569</b>

It is assumed that the Initial Properties will be acquired by CPIPL, a wholly owned subsidiary of Centuria Capital Limited, from Heritage Lifecare Limited on 19 April 2022. It is assumed that the Company will then acquire the Initial Properties from CPIPL on 20 April 2022 using the proceeds of an intragroup loan provided by CPIPL. The intragroup loan is then assumed to be repaid on the same day from investor equity being raised under the Offer (and CPIPL as underwriter, in the event the Offer is not fully subscribed) and drawn debt.

## 1.2.10 Offer and acquisition costs

Total Offer and acquisition costs are forecast to be \$14,688,000. The table below sets out how the costs are assumed to be treated.

	Capitalised to investment property \$000	Capitalised to equity \$000	Capitalised to borrowings and other treatment \$000	Total \$000
Establishment fee	769	2,884	192	3,845
Underwrite fee and Underwrite Loan fee*	-	726	2,904	3,630
Interest on deposit	311	-	-	311
Brokerage fees	-	2,118	-	2,118
Legal fees	228	222	50	500
Investigating accountant	-	170	-	170
Valuation fees	171	-	-	171
Chattels and land valuation fees	83	-	-	83
Property due diligence	15	-	-	15
Marketing, PDS design and printing	-	541	-	541
Independent directors finders fees	-	50	-	50
PDS liability insurance	-	200	-	200
Bank fees and bank legal fees	-	-	291	291
Registry and customer due diligence	-	56	-	56
PDS registration fees	-	6	-	6
Swap purchase fee*	-	-	2,657	2,657
Interest on swap purchase fee*	-	-	44	44
	<b>1,577</b>	<b>6,973</b>	<b>6,138</b>	<b>14,688</b>

\* The Underwrite Loan fee of \$2,904,000 has been expensed in the period ended 31 March 2023. The swap purchase fee and interest on swap purchase fee have been capitalised as an asset.

The bank legal fees and bank fees above are capitalised to borrowings and amortised over the term of each facility.

The underwrite fee is based on a signed agreement with CPIPL. The underwrite fee is calculated as 3% of \$121,000,000, being the total amount underwritten or committed by CPIPL under the underwriting agreement and Underwriting Loan agreement. \$2,904,000 of the total underwrite fee has been allocated to the subordinated loan. The Underwriting Loan is assumed to not be drawn on and the Underwriting Loan fee has therefore been expensed.

The remainder of the Offer costs are based on contractual obligations, quotes received and/or estimates made by the Manager using experience from managing similar funds.

### 1.2.11 Taxation

The Company will register as a multi-rate portfolio investment entity (**PIE**). The Company will attribute taxable income to shareholders based on their proportionate holding and pay tax based on their prescribed investor rates ("**PIR**").

It is assumed that the Company will continue to qualify as a PIE for the PFI period.

### 1.2.12 Capital commitments

The Company does not anticipate having any capital commitments as at 31 March 2023 or 31 March 2024.

### 1.2.13 Contingent liabilities

The Company does not anticipate having any contingent liabilities as at 31 March 2023 or 31 March 2024.

### 1.2.14 Actual results

Actual results may differ from the PFI. The resulting variance may be material.

The Company, the Board and the Manager give no guarantee or assurance that the PFI presented will be achieved.

The PFI should be read in conjunction with Section 8 "Risks to Centuria NZ Healthcare's business and plans" in the PDS. An analysis of the sensitivity of the PFI to changes in specific key assumptions is included in Section 3 of this PFI.

## 2 Statement of accounting policies

The prospective financial statements presented are for the reporting entity Centuria NZ Healthcare Property Fund Limited.

The Company will be an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and will report as a Tier 1 For Profit entity. The prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand as it relates to the prospective financial statements, and comply with FRS-42 Prospective Financial Statements. The accounting policies and disclosures adopted in these prospective financial statements reflect those required by the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit orientated entities.

The actual annual financial statements for the Company will be prepared in accordance with and comply with NZ IFRS and International Financial Reporting Standards. The accounting policies adopted in the prospective financial statements reflect the policies expected to be adopted in the actual annual financial statements in future periods.

### Measurement base

The prospective financial statements have been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

### Comparatives

These prospective financial statements include the first period of trading to 31 March 2023. As the period ending 31 March 2023 will be the first financial period of the Company, there are no comparatives available.

### Investment property

Investment property is initially measured at cost, including transaction costs and is subsequently measured at fair value which reflects market conditions. Fair value is determined annually by independent valuers and adjusted for any amounts already allocated to other assets or liabilities. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Subsequent expenditure is capitalised to the asset's carrying amount only where it is probable a future economic benefit will flow to the Company and cost can be reliably measured. All other repairs and maintenance costs are expensed as incurred.

The buildings and the leases are considered as single assets, because they are recognised and measured as single identifiable assets. If substantially all of the fair value of gross assets is concentrated in a single asset (or a group of similar assets) the transaction is accounted for as an asset purchase.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the disposal of an investment property are recognised in profit or loss in the period of derecognition.

### Revenue and expenses

#### *Revenue recognition*

Rental income is recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the underlying asset is diminished. Lease incentives provided to tenants are amortised on a straight-line basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income.

Income generated from property operating expenses recovered from tenants is included in gross rental income with the associated property operating expenses shown in operating expenses. Rates and insurance recoveries are recognised as components of lease revenue. Other property operating expense recoveries are recognised as service charge income when a performance obligation is satisfied by transferring control of goods or services to tenants that are recoverable in accordance with the terms and conditions of lease agreements. A performance obligation is a promise in a lease to provide a distinct good or service (or a bundle of goods and services) to a tenant.

### Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

**Finance income**

Finance income consists of interest income and is recognised as interest accrues on cash deposits using the effective interest method.

**Finance expenses**

Finance expenses consists of interest and fees payable on borrowings which is recognised as an expense using the effective interest rate method.

**Goods and services tax (GST)**

All amounts are shown exclusive of GST except for:

- GST incurred on the purchase of goods and services that is not recoverable from the taxation authority; and
- Receivables and payables that are stated inclusive of GST.

**Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any allowance for expected credit losses. Trade receivables are non-interest bearing and on 30-day terms. The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

**Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent unsecured liabilities for goods and services provided to the Company prior to year-end which are unpaid and arise when the Company becomes obliged to make future payments in respect to the purchase of goods and services. As trade and other payables are usually paid within 30 days they are not discounted.

**Borrowings**

All borrowings are initially measured at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method. Under this method, directly attributable fees, costs, discounts and premiums are capitalised and spread over the expected life of the facility. All other interest costs and bank fees are expensed in the period they are incurred. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

**Interest rate swaps**

The Company uses interest rate swaps to hedge its exposure to interest rate risks arising from borrowings. Interest rate swaps are recognised at fair value and any resulting gain or loss on re-measurement is recognised in profit and loss. The Company does not apply hedge accounting.

The Company applies Level 2 criteria of the fair value hierarchy in determining the fair value of its interest rate swaps. The fair value of interest rate swaps is obtained externally and is the estimated amount the Company would receive or pay to terminate the swaps at balance date. The valuation technique calculates the gain or loss by comparing the present value of cash flows using current market interest rates and comparing these to the present value of future cashflows under the swap agreement. The fair value estimate is not subject to a credit risk adjustment that reflects the credit risk of the Company and of the counterparty.

**Offer costs**

Offer costs are treated in a number of ways depending on the nature of the costs: (1) costs directly attributable to raising equity are deducted from the equity proceeds, (2) costs associated with obtaining finance are capitalised and amortised over the term of the borrowings, (3) costs associated with the purchase of an in the money interest rate swap are capitalised as a financial asset, and (4) costs associated with purchasing property are capitalised as part of the investment property asset. All other costs are expensed as incurred.

**Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and which are subject to an insignificant risk of changes in value and are readily accessible.

**Statement of Cash Flows**

The Statement of Cash Flows is presented on a direct basis. The following terms are used in the Statement of Cash Flows:

- (a) Cash and cash equivalent means cash on deposit with banks;
- (b) Operating activities means the gross cash received from and paid in relation to the principal revenue producing activities and other that are not investing or financing activities;
- (c) Investment activities means the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents; and
- (d) Financing activities means the activities which result in changes in the equity and debt capital structures, this includes the payment of distributions.

### 3 Sensitivity analysis for the prospective financial information

Prospective financial information is inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from prospective financial statements, and this variation could be material. A summary of the likely effects of variations in key assumptions are detailed below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting the information set out below. The approach taken in respect of the sensitivities has been to determine those variables most likely to materially affect results in the period ending 31 March 2023 and the year ending 31 March 2024.

Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions, which is not likely to be the case. It is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects.

The tables below illustrate the impact on the operating profit before fair value movements, Adjusted Operating Profit and Net Tangible Assets due to movements in the key assumptions used in the PFI periods. The below sensitivities do not take account of any risk management initiatives that the Company may take should a change in these assumptions arise.

<b>FY23 impact</b>	<b>Cents per share</b>	<b>\$'000</b>
<b>Operating profit before fair value movements</b>	<b>3.59</b>	<b>\$4,342</b>
<b>Adjusted Operating Profit</b>	<b>4.79</b>	<b>\$5,794</b>

<b>Net tangible assets</b>	<b>92.05</b>	<b>\$111,385</b>
<b>Investment property valuation</b>		
Increase in property valuations (+5%)	8.05	\$9,744
Decrease in property valuations (-5%)	(8.05)	(\$9,744)

<b>FY24 impact</b>	<b>Cents per share</b>	<b>\$'000</b>
<b>Operating profit before fair value movements</b>	<b>6.27</b>	<b>\$7,587</b>
<b>Adjusted Operating Profit</b>	<b>5.07</b>	<b>\$6,139</b>

<b>CPI rent review</b>		
Increase in CPI +1.00%	0.09	\$113
Decrease in CPI -1.00%	(0.08)	(\$93)
<b>Net tangible assets</b>	<b>91.12</b>	<b>\$110,258</b>
<b>Investment property valuation</b>		
Increase in property valuations (+5%)	8.05	\$9,744
Decrease in property valuations (-5%)	(8.05)	(\$9,744)

#### Notes

##### CPI rent review

The PFI assumes a 2.90% CPI rental increase on 18 April 2023 (being the first anniversary of the commencement date for the Leases). The sensitivity reflects a higher or lower CPI as at 18 April 2023 which would result in a higher or lower rental increase. The sensitivity only considers the impact on rent and ignores the potential impact that a different CPI may have on expenses.

##### Investment property valuation sensitivity

The sensitivity reflects the impact of an increase or decrease in property valuations assumed in the PFI at 31 March 2023 and 31 March 2024. There is no impact of an increase or decrease in property values on Adjusted Operating Profit, given the revaluation gains and losses are excluded from the Adjusted Operating Profit definition. The impact of an increase or decrease in management fees caused by changes in property values has not been included in the sensitivity analysis.

## 4 Reconciliation of non-GAAP financial information

The Company's dividend policy is to pay-out distributions of between 90% to 110% of Adjusted Operating Profit. Distributions paid may be less than 90% of Adjusted Operating Profit when reserves are required to be built up for items such as refinancing, loan principal repayments, acquisitions, future capital expenditure or to support leasing activity. Due to fluctuations in income and expenses, it is possible that the Company may pay more than 110% of Adjusted Operating Profit in a particular period using surplus capital or debt, but this will only occur where it is commercially sustainable.

Adjusted Operating Profit is a non-GAAP measure that quantifies the surplus generated by the Company. It is important because it is the measure used when determining distributions under the dividend policy. Adjusted Operating Profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities.

Adjusted Operating Profit is calculated by adjusting net profit after tax (determined in accordance with NZ IFRS) for certain non-cash, one-off and/or unpredictable items including:

- Reversing unrealised fair value gains or losses on investments;
- Reversing fair value gains or losses on derivative financial instruments;
- Reversing gains or losses on disposal of investments;
- Removing accruals for fixed rental growth;
- Reversing the amortisation of establishment or upfront payments in connection with entering into any derivative contracts;
- Reversing fair value gains or losses on vendor underwrites and retentions that are treated as financial assets;
- Adding rental income on vendor leases that are treated as financial assets and not reflected in net profit;
- Reversing the amortisation of lease incentives funded by vendor underwrites;
- Reversing the amortisation of borrowing costs incurred at establishment or in respect of future equity raising;
- Reversing interest expense on loans that underwrite the Company's capital raising;
- Removing depreciation on right-of-use assets and subtracting the repayment of lease liabilities to mirror cash flows; and
- Adjusting for other one-off and unpredictable items including acquisition fees, marketing costs in relation to raising capital and performance fees.

For the purposes of the Adjusted Operating Profit payout ratio, interest expense on loans that underwrite the Company's capital raising is treated as a distribution.

The following table reconciles the net profit after tax as per the Prospective Statement of Comprehensive Income to the Adjusted Operating Profit. The reconciliation has not been subject to an independent audit or review.

	<b>13 months and 18 days ending 31 March 2023 \$000</b>	<b>12 months ending 31 March 2024 \$000</b>
<b>Reconciliation of net profit after tax to Adjusted Operating Profit</b>		
Prospective net profit after tax	3,072	4,923
Adjustments:		
Unrealised movement in the fair value of investment property	544	1,599
Change in fair value of interest rate swaps	726	1,065
Adjustment due to capitalised fixed rental growth	(1,603)	(1,599)
Amortisation of capitalised borrowing costs	151	151
Underwrite Loan fee	2,904	-
<b>Adjusted Operating Profit</b>	<b>5,794</b>	<b>6,139</b>
<b>Adjusted Operating Profit payout ratio</b>	<b>99%</b>	<b>99%</b>

### Earnings before interest, taxes, depreciation and amortisation (EBITDA)

EBITDA is a non-GAAP measure widely used to evaluate an entity's operating performance.

The following table reconciles the net profit after tax as per the Prospective Statement of Comprehensive Income to EBITDA and EBITDA adjusted for unrealised gains and losses. The reconciliation has not been subject to an independent audit or review.

	13 months and 18 days ending 31 March 2023 \$000	12 months ending 31 March 2024 \$000
Net profit after tax	3,072	4,923
Add back: Finance expenses	6,457	4,050
Add back: Income tax	-	-
<b>EBITDA</b>	<b>9,529</b>	<b>8,973</b>
Reverse: Change in fair value of investment property	544	1,599
<b>EBITDA adjusted for unrealised gains and losses</b>	<b>10,073</b>	<b>10,572</b>

### Gearing ratio

	As at 31 March 2023 \$000	As at 31 March 2024 \$000
Loan balance	85,500	85,500
Total assets	197,632	196,688
<b>Gearing ratio</b>	<b>43.3%</b>	<b>43.5%</b>

### Interest cover ratio (EBITDA)

	13 months and 18 days ending 31 March 2023 \$000	12 months ending 31 March 2024 \$000
EBITDA adjusted for unrealised gains and losses	10,073	10,572
Interest expense on borrowings	(3,553)	(4,050)
Underwriting Loan fee	(2,904)	-
<b>Interest cover ratio (including Underwriting Loan fee)</b>	<b>1.56</b>	<b>2.61</b>
<b>Interest cover ratio (excluding Underwriting Loan fee)</b>	<b>2.83</b>	<b>2.61</b>

## 5 Financial measures for the Company's borrowings (non-GAAP)

The loan to value and interest cover ratios are non-GAAP information. These have been disclosed as borrowings are a material item for the Company. The loan to value and interest cover ratios do not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities.

Refer below for relevant calculations. The calculations have not been subject to an independent audit or review.

### Loan to value ratio

	As at 31 March 2023 \$000	As at 31 March 2024 \$000
Loan balance	85,500	85,500
Investment property valuation	194,875	194,875
<b>Loan to value ratio</b>	<b>43.9%</b>	<b>43.9%</b>

The banking covenant requires that the loan to value ratio is to be no more than 52.5%.

The loan to value ratio tells you how much the Company owes (borrowings) as a portion of the investment property valuation. The higher the ratio, the higher the risk as it indicates a higher proportion of the Company's investment property will need to be applied to repay its borrowings.

The loan to value ratio for bank covenant purposes is calculated on the bank loan only and excludes any Underwriting Loan.

The loan to value ratio is different to the gearing ratio which represents total borrowings divided by total assets.

### Interest cover ratio (net rent)

	13 months and 18 days ending 31 March 2023 \$000	12 months ending 31 March 2024 \$000
Net rent (excluding adjustment due to capitalised fixed rental growth)	10,044	10,933
Interest expense on borrowings	(3,553)	(4,050)
<b>Interest cover ratio (excluding Underwriting Loan fee)</b>	<b>2.83</b>	<b>2.70</b>

The banking covenant requires that the interest cover ratio is not to be less than two times.

The interest cover ratio tells you how much the Company's operating profit before finance expenses and fair value movements exceeds interest on its borrowings (as a multiple). The higher the ratio, the more comfortably the Company's income can cover any interest expense (and the lower risk to the Company).

The interest cover ratio for bank covenant purposes is calculated on the interest expense on bank borrowings and excludes the Underwriting Loan fee.

The interest cover ratio on net rent is different to the interest cover ratio on EBITDA which represents EBITDA divided by interest expense, including the Underwriting Loan fee.