

Centuria NZ Property Fund

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 Property Fund (the "Fund") comprise the following Prospective Financial Information ("PFI") and other PFI related information for the years ending 31 March 2022 ("FY22") and 31 March 2023 ("FY23"):

PFI:

- Prospective statement of comprehensive income;
- Prospective statement of changes in equity;
- Prospective statement of financial position;
- Prospective statement of cash flows; and
- Notes and assumptions for the prospective financial statements.

Other PFI related information:

- Sensitivity analysis for the PFI;
- Reconciliation of non-GAAP financial information;
- Forecast Unit Price as at 22 December 2021 (non-GAAP); and
- Financial measures for the Fund's borrowings (non-GAAP).

This document should be read in conjunction with the Product Disclosure Statement ("PDS") dated 15 November 2021 and other information provided on the Offer Register (offer number OFR13179). 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 rounding applied.

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 49(1)(b) of Schedule 5 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 Centuria Funds Management (NZ) Limited's Board (the "Directors") specifically for the purpose of a Public Offer of units in the Fund (the "Offer").

The Directors have given due care and attention to the preparation of the PFI (including the assumptions underpinning the PFI) and authorised the PFI as at 15 November 2021 for the purpose stated above. The PFI may not be suitable for any other purpose. The PFI is based on the Directors' assessment of events and conditions existing at the date of this PDS, the accounting policies and best-estimate assumptions.

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 Fund. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated.

There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The Fund will present a comparison of the PFI with actual financial results in its FY22 and FY23 annual reports, as required by clause 59, Schedule 5, of the Financial Markets Conduct Regulations 2014, and clauses 70 and 71 of FRS-42.

Various risk factors and the management thereof may influence the success of the Fund's business - with specific reference to Section 7 "Risks to returns from the Centuria NZ Property Fund" in the PDS. Accordingly, actual results may vary from the PFI, and those variations may be significantly more or less favourable. The Directors cannot and do not guarantee the achievement of the PFI.

Financial periods

The PFI covers the reporting years ending 31 March 2022 and 31 March 2023. The prospective reporting period ending 31 March 2022 includes actual financial performance and position to 31 August 2021, with forecasts commencing on 1 September 2021.

Explanation of certain non-GAAP financial measures

Refer to section 5 "Reconciliation of non-GAAP financial information" for a description and reconciliation of each adjustment to GAAP financial information and Section 6 "Financial measures for the Fund's borrowings (non-GAAP)" which sets out the loan to value and interest cover ratios.

Prospective statement of comprehensive income

	Note	12 months ending 31 March 2022 \$000	12 months ending 31 March 2023 \$000
Gross rental income	1.2.4	5,096	6,035
COVID-19 rental guarantee income	1.2.4	40	-
Gross property income		5,136	6,035
Recoverable property operating expenses	1.2.4	(1,450)	(1,562)
Non-recoverable property operating expenses	1.2.4	(790)	(1,000)
Property investigation expenses	1.2.4	(130)	(51)
Net property income		2,766	3,422
Administration expenses	1.2.4	(183)	(209)
Management fees	1.2.4	(352)	(430)
Operating profit before finance expenses and fair value movements		2,231	2,783
Finance expenses	1.2.6	(2,252)	(111)
Operating profit before fair value movements		(21)	2,672
Change in fair value of investment property	1.2.2	2,483	3,879
Operating profit before tax		2,462	6,551
Income tax	1.2.10	-	-
Net profit after tax		2,462	6,551
Other comprehensive income		-	-
Total comprehensive income attributable to shareholders		2,462	6,551

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

Prospective statement of changes in equity

	Note	Issued capital \$000	Retained earnings \$000	Total \$000
Equity as at 1 April 2021		35,926	690	36,616
Issued capital		50,000	-	50,000
Redemption of units		(5,000)	-	(5,000)
Issue costs	1.2.9	(1,848)	-	(1,848)
Total comprehensive income for the year		-	2,462	2,462
Distributions to investors		-	(2,875)	(2,875)
Equity as at 31 March 2022	1.2.7	79,078	276	79,354
Equity as at 1 April 2022		79,078	276	79,354
Total comprehensive income for the year		-	6,551	6,551
Distributions to investors		-	(4,390)	(4,390)
Equity as at 31 March 2023	1.2.7	79,078	2,438	81,516

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 2022 \$000	As at 31 March 2023 \$000
Current assets			
Cash and cash equivalents		1,468	500
Total current assets		1,468	500
Non-current assets			
Investment property	1.2.2	78,605	94,667
Total non-current assets		78,605	94,667
Total assets		80,073	95,167
Current liabilities			
Trade and other payables	1.2.5	764	533
Total current liabilities		764	533
Non-current liabilities			
Borrowings	1.2.6	-	13,168
Capitalised borrowing costs	1.2.6	(45)	(50)
Total non-current liabilities		(45)	13,118
Equity		79,354	81,516
Total liabilities and equity		80,073	95,167

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

Prospective statement of cash flows

	Note	12 months ending 31 March 2022 \$000	12 months ending 31 March 2023 \$000
Cash flows from operating activities			
Cash was provided from :			
Rental receipts		3,748	4,445
Property operating expense recoveries		1,433	1,562
COVID-19 rental guarantee income		40	-
Receipt of vendor rental underwrite financial asset		270	-
		5,491	6,007
Cash was applied to :			
Payments to suppliers		(3,692)	(3,419)
Goods and services tax paid		(126)	(92)
Interest paid		(700)	(91)
		(4,518)	(3,602)
Net cash flow from operating activities		973	2,405
Cash flows from investing activities			
Cash was provided from :			
Receipt of vendor seismic works retention financial asset		1,462	-
		1,462	-
Cash was applied to :			
Acquisition of investment property		(15,197)	-
Transaction costs in relation to purchase of property		(413)	-
Seismic works expenditure		(1,438)	-
Capital improvements		(3,273)	(12,128)
		(20,321)	(12,128)
Net cash flow used in investing activities		(18,859)	(12,128)
Cash flows from financing activities			
Cash was provided from :			
Investor capital		50,000	-
Debt drawn/(repaid)		(19,800)	13,168
		30,200	13,168
Cash was applied to :			
Distributions and PIE tax		(2,738)	(4,390)
Redemption of units		(5,000)	-
Issue costs	1.2.9	(3,194)	-
Borrowing costs		(64)	(23)
		(10,996)	(4,413)
Net cash flow from financing activities		19,204	8,755
Net increase/(decrease) in cash and cash equivalents		1,318	(968)
Cash and cash equivalents at start of year		150	1,468
Cash and cash equivalents at end of year		1,468	500

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 Fund is domiciled in New Zealand. The Fund is 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 15 November 2021. The Directors are 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 7 "Risks to returns from the Centuria NZ Property Fund" 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 Fund operates.
- **COVID-19** - As a result of the current COVID-19 Alert Level Framework and recently announced COVID-19 Protection Framework, the PFI assumes that restrictions will be in place for parts of the PFI period that will result in rental abatement being provided to some tenants. It has been assumed that nationwide and/or regional restrictions will be in place for eight weeks during the August 2021 to November 2021 period, and for a further two weeks during the period from settlement of the Offer to 31 March 2022, that impact all properties and result in rental abatement being provided to some tenants.
- **Political, legislative and regulatory environment** - there will be no material change to the political, legal or regulatory environments in which the Fund operates.
- **Markets operating in** - the Fund 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 Fund 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 Fund operates.
- **Industry conditions** - there will be no change in the general industry structure, third party relationships, supply of rental property or general employment conditions.
- **Key tenants 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 Fund's business.
- **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 Fund 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 Fund.

- **Management of the Fund** - the Fund will be managed by Centuria Funds Management (NZ) Limited (the "Manager"), who will be sufficiently resourced to manage the Fund with no significant changes to key personnel involved in management of the Fund.
- **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 Fund will depreciate the acquired assets for income tax purposes. It is assumed the Fund will maintain its portfolio investment entity status throughout the PFI period.
- **Inflation** - CPI is assumed to be 1.75% per annum during the PFI period.

1.2 Specific assumptions

1.2.1 Equity raise, offer costs and settlement

\$38,500,000 of equity was raised in September 2020 from the Initial Offer and, together with debt, the Fund acquired Anglesea Medical Centre, Hamilton and paid establishment costs. In May 2021, additional debt was drawn to acquire 26 Clarence Street, Hamilton. In October 2021, additional debt was drawn to fund the acquisition of 196 Roydvale Avenue, Christchurch.

It is assumed that \$50,000,000 of additional equity is raised in the Offer to repay debt, fund further acquisitions and development opportunities, fund redemption of units and to pay the associated Offer costs. It is assumed that the \$50,000,000 of equity will be issued at a price of \$1.07 per Unit and will be allotted on 23 December 2021.

In conjunction with the Offer, existing investors, who are unitholders on 31 October 2021, are entitled to redeem their units at a redemption price of \$1.07. The total redemption pool is capped at \$5,000,000 (4,672,897 units) and it is assumed that the maximum amount representing 4,672,897 units is redeemed. This assumption is based on historical redemption rates in other managed investment schemes. Redemptions of these units are assumed to occur on 23 December 2021. It is therefore assumed that net equity of \$45,000,000 (before Offer costs) will be raised in the Offer.

Use of funds

Redemption of units	5,000
Extension development capital expenditure at Anglesea Medical Centre	12,066
Offer costs	3,194
Repayment of debt	29,740
Total	50,000

Source of funds

Equity	50,000
Total	50,000

Offer costs are assumed to be paid on 23 December 2021.

1.2.2 Investment property and capital expenditure

Investment property

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Carrying amount of investment property at beginning of year	55,010	78,605
Opening retention funds held in Chapman Tripp trust account	1,711	-
Opening total investment property	56,721	78,605
Movements in the period		
Purchase price of investment properties	15,747	-
Transaction costs to purchase investment properties	401	-
Transfer to vendor rental underwrite financial asset	(270)	-
Transfer to seismic works retention financial asset	(1,355)	-
Seismic works expenditure	1,355	-
Investment property additions	3,364	12,128
Movement in lease incentives, leasing fees, and fixed rental income	159	55
Change in fair value of investment property (vendor rental underwrite financial asset)	(85)	-
Change in fair value of investment property	2,568	3,879
Total investment property	78,605	94,667

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Anglesea Medical Centre	61,862	77,845
26 Clarence Street	6,692	6,773
196 Roydvale Avenue	10,050	10,050
Total investment property	78,605	94,667

The acquisition of 196 Roydvale Avenue settled on 29 October 2021 (prior to new equity being raised in the Offer) for \$9,300,000 based on a signed sale and purchase agreement, with the acquisition being debt funded. A deposit for 196 Roydvale Avenue of \$460,000 was paid in August 2021. On settlement it is assumed the property is revalued to the most recent independent valuation obtained as part of due diligence. The details of the most recent independent valuations are set out in the table below.

	Valuer	Date of report	Valuation \$000
Anglesea Medical Centre	Jones Lang LaSalle	24 August 2021	59,000
26 Clarence Street	Jones Lang LaSalle	24 August 2021	6,600
196 Roydvale Avenue	Jones Lang LaSalle	3 September 2021	10,050
Total			75,650

It is assumed that Anglesea Medical Centre and 26 Clarence Street are revalued at 30 September 2021 to align to the most recent independent valuations obtained as part of due diligence undertaken for the Offer.

On 31 March 2022 and 31 March 2023 it is assumed that each investment property is revalued, with the carrying value assumed to represent the most recent independent valuations obtained during due diligence plus additional capital expenditure assumed during the PFI period.

On 31 March 2023, the value of Anglesea Medical Centre is assumed to represent \$75,000,000 (based on advice from an independent valuer of the "as if complete" value following the completion of the extension development) plus additional capital expenditure on other projects assumed during the PFI period.

When calculating the unrealised movement in the fair value of the investment property, adjustments have been made for the movement in the value of the accrual for fixed rental growth, capitalised lease incentives and capitalised leasing fees. Adjustments have also been made for financial assets relating to vendor underwrites and retentions. For accounting purposes, rental income is adjusted to straight-line the total contracted rent over the lease period with a fixed rental growth accrual recognised as a component of the fair value of the investment property.

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 the lease terms, market yields and other contributing factors as at the future valuation dates. A degree of caution should also be applied when referencing valuations in the current economic climate.

The valuers noted that, at the date of the valuation reports, New Zealand was in a state of nationwide lockdown in an effort to control an outbreak of the 'Delta' variant of COVID-19. They also specifically noted that their valuation had been conducted with references to the definition of 'Market Value' outlined in the report, with reference to the provisions of the assumption of a willing buyer, willing seller, acting prudently and without compulsion. In some cases the valuers noted that there is less certainty in the market place.

No further investment property acquisitions or divestments are assumed during the PFI period.

Financial assets

Anglesea Medical Centre vendor rental underwrite and retention for seismic works

Financial assets were recognised in the prior period in relation to a rental underwrite provided by the vendor of Anglesea Medical Centre and a retention held for seismic works. It is assumed that these financial assets are released by 31 March 2022 as the rental underwrite is assumed to be utilised by 30 September 2021 and the seismic works are assumed to be complete by 31 March 2022.

Capital expenditure - investment property

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Anglesea Medical Centre - extension development	543	11,258
Anglesea Medical Centre - capitalised interest relating to extension development	2	263
Anglesea Medical Centre - food and beverage balcony and canopy	833	-
Anglesea Medical Centre - office fit out	600	-
Anglesea Medical Centre - lobby refurbishment	300	-
Anglesea Medical Centre - A&E fit out	-	500
General capital expenditure across all properties	1,086	107
Total capital expenditure	3,364	12,128

It is assumed that an extension of circa 1,500sqm is developed at the Anglesea Medical Centre site for a specialist medical service use. It is assumed that the development works will commence during the year ending 31 March 2022 and be completed on or by 31 March 2023. The costs and the timing of when the expenditure is likely to be incurred is based on a concept design cost plan estimate report prepared by an external development manager that specialises in medical developments.

Other general capital expenditure has been assumed in the PFI, based on property condition reports and the Manager's estimates. Timing of when this expenditure is likely to be incurred has been determined by the Manager based on due diligence findings and experience with similar assets.

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

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Net profit after tax	2,462	6,551
Adjustments for:		
Change in fair value of investment property	(2,483)	(3,879)
Amortisation of capitalised borrowing costs	232	20
Receipt of vendor rental underwrite financial asset	270	-
Adjustment due to capitalised fixed rental growth	(17)	(20)
Capitalisation of lease incentives	(53)	(36)
Amortisation of capitalised lease incentives	12	28
Capitalisation of leasing fees	(108)	(54)
Amortisation of capitalised leasing fees	7	26
Underwriting Loan fee	1,346	-
Changes to assets and liabilities relating to operating activities:		
(Increase)/decrease in trade and other receivables	69	-
Increase/(decrease) in trade and other payables	(764)	(231)
Net cash flow from operating activities	973	2,405

1.2.4 Revenue and expenses

Rental income

Rental income has been forecast based on existing lease agreements with tenants. It is assumed that there is no tenant default, no tenant termination rights are exercised and there are no delays in receipt of debtors.

Rental income from 196 Roydvale Avenue commences on 30 October 2021 being the day following settlement.

The PFI reflects all market, CPI and fixed rent reviews occurring during the PFI period. Market rents are assumed based on the most recent independent valuations obtained as part of due diligence.

Vacancy assumptions have been made for tenancies that are currently vacant or that are due to expire during the PFI period. Vacancy periods of between zero months and 18 months have been assumed, with the longer vacancy periods being assumed on spaces that are being developed as part of the Anglesea Medical Centre extension development. These assumptions are based on the Manager's experience and understanding of current market conditions.

Rent free lease incentives equal to between three to four months' rent have been assumed for certain tenancies where these are considered likely by the Manager based on the Manager's experience and understanding of market standards.

COVID-19 rental abatements

As a result of the nationwide COVID-19 restrictions that were in place in August and September 2021, it is assumed that rental abatement totalling \$35,490 is provided to tenants at Anglesea Medical Centre. This is based on agreements reached with tenants.

In addition, it is assumed that further nationwide or regional COVID-19 restrictions will be in place during the PFI period resulting in rental abatements being provided to tenants. The PFI assumes these restrictions will be in place for the month of October 2021 (resulting in total rent abatements of \$51,465), two weeks in November 2021 (resulting in total rent abatements of \$37,044), and for a further two weeks during the period from settlement of the Offer to 31 March 2022 (resulting in total rent abatements of \$39,667).

Centuria Capital (NZ) No.1 Limited COVID-19 rental underwrite

Due to COVID-19 uncertainty the Manager's parent company, Centuria Capital (NZ) No.1 Limited, has agreed to provide the Fund with an underwrite for rent and outgoings payable on tenancies forecast to be in place on 23 December 2021 for a period of 6 months from the date of allotment of Units under the Offer. The amount available to be claimed by the Fund pursuant to this underwrite is capped at \$500,000 (plus GST). It is assumed that \$39,667 (plus GST) of this underwrite is utilised to cover rent and outgoings abatements provided to tenants at Anglesea Medical Centre, 26 Clarence Street and 196 Roydvale Avenue as a result of COVID-19 related restrictions from settlement of the Offer to 31 March 2022 assumed in the PFI.

Straight lining of rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term. 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. The table below sets out the assumed invoiced rent and adjustments for the straight lining of rental income and lease incentives for the PFI period.

	12 months ending 31 March 2022 \$000	12 months ending 31 March 2023 \$000
Rental income	3,947	4,481
Receipt of vendor rental underwrite financial asset - rental income	(207)	-
Rental abatement due to COVID-19	(164)	-
Adjustment due to straight lining of rental income	17	20
Straight lining of capitalised rental incentive	41	(28)
Recoverable property operating expenses	1,525	1,562
Receipt of vendor rental underwrite financial asset - operating expenses recovered	(63)	-
Gross rental income	5,096	6,035
COVID-19 rental guarantee income	40	-
Gross property income	5,136	6,035

Operating expenses

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Recoverable property operating expenses		
Repairs and maintenance	320	332
Property management fees	173	194
Utilities and rates	806	866
Insurance	94	110
Other expenses	57	60
Total recoverable property operating expenses	1,450	1,562
Non-recoverable operating expenses		
Repairs and maintenance	747	949
Property management fees	3	2
Utilities and rates	24	15
Insurance	6	5
Other expenses	10	29
Total non-recoverable property operating expenses	790	1,000

Recoverable and non-recoverable property operating expenses have been forecast based on a combination of assumptions, including budgets prepared by third party property managers. The recoverability of property operating expenses has been assumed based on lease agreements currently in place with tenants.

Tenants with net leases are responsible for the majority of operating expenses including rates, insurance premiums, utilities and certain maintenance obligations. There are elements of non-recoverable operating expenses which are the responsibility of the landlord, including operating expenses on vacant tenancies.

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 2022 and 31 March 2023.

Property operating expense recoveries received from the Anglesea Medical Centre vendor rental underwrite are treated as a receipt of a financial asset and are not recognised as property operating expense recoveries in the prospective statement of comprehensive income.

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 actual costs incurred to date and the Manager's experience.

Administration expenses

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Valuation fees	33	31
Audit fees	46	46
Registry fees	16	16
Supervisor fees	28	38
Legal, tax, bank agency and other consultancy fees	60	78
Total administration expenses	183	209

Valuation fees, audit fees, supervisor fees and bank agency fees have been forecast based on existing agreements or quotes received.

Registry fees, legal, tax and other consultancy fees have been forecast based on the Manager's estimates and experience in managing other property funds.

Auditor's remuneration

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Financial statements audit	46	46
Total auditor's remuneration	46	46

Financial statements audit costs are based on an estimate received.

Fees paid to the Manager

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

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Management fees		
Fund management fees	352	430
Other fees		
Leasing fees	68	53
Development management fees	139	414
Acquisition fees	315	-
Total fees charged	874	897

The fees set out above constitute the following components, as set out in the Fund's Trust Deed:

Fund management fees - 0.5% p.a. of the average month-end value of all assets of the Fund. This fee is payable quarterly in arrears.

Leasing fees - one-off fee of between 5% and 15% of annual gross rental for each new lease arranged or right of renewal exercised depending on the term of the lease and whether a third party or real estate agent is involved in the negotiation.

Development management fees - 3.5% of the total costs of any development, project or other work of a capital nature where the cost of those works exceeds \$50,000.

Acquisition fee - 2% of acquisition price in respect to future acquisitions. \$186,000 has been assumed in relation to the acquisition of 196 Roydvale Avenue.

Performance fee - A fee equal to 20% of the outperformance above the Benchmark is calculated and paid six monthly in arrears. Over and under performance is calculated in respect of each six month period by calculating the performance of the Fund and the performance of the Benchmark and comparing the two. The Benchmark is fixed at 4% per six-month period.

The performance of the Fund is calculated by taking the Unit Price on the last business day of the six month period before any performance fee for that period (the Closing Unit Price), then subtracting the Unit Price on the last business day of the preceding six month period before any performance fee for that preceding Relevant Period (the Opening Unit Price) and adding the amount of distributions paid per unit during the period (on an accrual basis). The result is then divided by the Opening Unit Price to determine the performance in percentage terms (positive or negative).

The performance fee is calculated by subtracting the Benchmark from the performance of the Fund and multiplying the result by the average monthly Adjusted Net Asset Values of the Fund during the period. For the purposes of calculating outperformance, average monthly Adjusted Net Asset Value is calculated before any Performance Fee for the Relevant Period.

If the result is a negative amount, it is added to any negative amounts carried forward from previous periods and represents the carried forward underperformance. In this case, no performance fee is payable in respect of that period. If the result is a positive amount, that amount is multiplied by 20% and represents the performance fee payable in respect of that period. Accordingly, the performance fee is charged on a high watermark basis such that any underperformance must be recovered prior to a performance fee being paid. There is no reset ability.

The Adjusted Net Asset Value of the Fund represents the Fund's reported net asset value adjusted for items set out in the Trust Deed. These adjustments take into account the Fund's policy of spreading establishment costs, capital raising costs and the costs of acquiring and disposing assets over time.

The Manager is assumed to be entitled to a performance fee of \$183,441 for the six month period to 30 September 2021, but the Manager has waived this fee.

Underwriting fees in respect of the Offer are reflected in the related party note.

1.2.5 Trade and other payables

	As at 31 March 2022 \$000	As at 31 March 2023 \$000
Trade and other payables		
Management fee payable	99	115
Distributions payable	366	366
Other payables	331	176
GST payable/(receivable)	(32)	(124)
	764	533

1.2.6 Financing

The Fund has a revolving syndicated loan facility provided by ASB Bank Limited and Industrial and Commercial Bank of China (New Zealand) Limited.

The original tranche has total limits of \$29,125,000 and expires on 30 September 2023. It is assumed that this tranche is cancelled and repaid, in full, from investor equity raised in the Offer.

A new tranche ("Tranche A") with a limit of \$12,375,000 was established to fund the acquisition of 196 Roydvale Avenue on 29 October 2021. This tranche has a term of three years and will expire on 29 October 2024. It is assumed this tranche is repaid from investor equity raised in the Offer and redrawn over the PFI period.

It is assumed that an additional tranche ("Tranche B") with a total limit of \$5,000,000 is established on 1 January 2023 to fund the later stages of the Anglesea Medical Centre extension development. It is assumed that this tranche will have a term of three years and will expire on 1 January 2026. Pricing and terms are assumed to be consistent with Tranche A.

Drawings and repayments are assumed to be made monthly based on working capital and capital expenditure requirements. All facilities are assumed to be interest only.

Borrowing summary

	As at 31 March 2022 \$000	As at 31 March 2023 \$000
Loan balance		
Opening balance	19,800	-
Net drawdown/(repayment)	(19,800)	13,168
Closing balance	-	13,168
Capitalised borrowing costs	(46)	(49)
Borrowings	(46)	13,119

Composition of loan facility

Tranche A

Maturity date	29-Oct-24	29-Oct-24
Loan balance	-	12,375
Facility limit	12,375	12,375
Margin payable on drawn amounts (p.a.)	1.56%	1.56%
Line fee payable on facility limit (p.a.)	0.84%	0.84%

Tranche B - Assumed

Maturity date	-	1-Jan-26
Loan balance	-	793
Facility limit	-	5,000
Margin payable on drawn amounts (p.a.)	-	1.56%
Line fee payable on facility limit (p.a.)	-	0.84%

Covenants

Loan to value ratio (LVR) not to be greater than	55%	55%
Interest coverage ratio (ICR) not to be less than	2.00 times	2.00 times

Loan security

The loan is secured by a registered first mortgage over the properties in the portfolio and a first ranking general security interest over the assets of the Fund.

Finance expenses

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Interest on bank loan*	451	240
Line fees on bank loan facility limit*	225	114
Amortisation of borrowing costs on bank loan*	232	20
Underwriting Loan fee	1,346	-
Capitalised interest on Anglesea Medical Centre extension development	(2)	(263)
Net finance expense	2,252	111
*Interest, line fees and borrowing costs as a percentage of net property income	32.8%	10.9%

The interest rate on the loan is a combination of the margin for the relevant facility plus an assumed floating base rate equal to the 1 month BKBM rate. The 1 month BKBM rate is assumed to increase over the forecast period from 0.37% p.a. as at 1 September 2021 to 2.92% p.a. as at 31 March 2023 based on market forecasts.

\$1,346,103 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.

1.2.7 Equity and distributions

38,500,000 units (issued at \$1 per unit) are currently issued. It is assumed that 46,728,971 units (issued at \$1.07 per unit) are issued in the Offer with a 23 December 2021 allotment date. It is also assumed that 4,672,897 units are redeemed (redeemed at \$1.07 per unit) on 23 December 2021.

Distributions will be declared on a monthly basis at the Manager's discretion and based on the Fund's financial performance and solvency requirements. The distribution policy is to distribute up to 110% of the Adjusted Operating Profit (non-GAAP) over the medium term which is outlined in section 5 of this PFI. The policy may change over time. Distributions may include surplus capital of the Fund.

Distributions are forecast to be paid at an annualised rate of 6.00 cents per unit until 23 December 2021, and at an annualised rate of 5.45 cents per unit from 24 December 2021 to 31 March 2023. Distributions are paid monthly in arrears.

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Opening balance	35,926	79,078
Units issued	50,000	-
Units redeemed	(5,000)	-
Issue costs	(1,848)	-
Closing balance of units issued	79,078	79,078

The opening balance in the table above is equal to \$38,500,000 equity previously raised by the Fund, offset by historical issue costs of \$2,573,774.

The Manager's objective is to ensure the Fund continues as a going concern as well as to maintain optimal returns to investors. As the market is constantly changing, the Manager will consider capital management initiatives, such as changing the level of distributions paid, sourcing additional debt or raising additional equity if required.

1.2.8 Related party transactions

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

Centuria Capital (NZ) No.1 Limited currently owns 10% of the units on issue and intends to subscribe for a further 1,150,000 units in the Offer. Following the Offer, it is assumed that Centuria Capital (NZ) No.1 Limited will own 6.21% of the units on issue. The forecast distributions payable to Centuria Capital (NZ) No1. Limited reflect the assumed unitholding.

Transactions with Centuria and related entities

	12 months ending 31 March 2022	12 months ending 31 March 2023
	\$000	\$000
Management fees	352	430
Leasing fees	67	53
Development management fees	139	414
Acquisition fees	315	-
Underwrite fee	1,463	-
Total fees paid to related parties	2,336	897
Distributions declared	242	277
Total amounts paid to related parties	2,578	1,174
COVID-19 rental guarantee income	63	-
Total amounts received from related parties	63	-

1.2.9 Offer and acquisition costs

Total Offer and acquisition costs are forecast to be \$3,194,496. The table below sets out how the costs are assumed to be treated.

	Capitalised to equity \$000	Expensed \$000	Total \$000
Underwrite fee	117	1,346	1,463
Brokerage on equity raised	853	-	853
Offer marketing, PDS design and printing	428	-	428
Legal fees	245	-	245
Supervisor	5	-	5
Registry and AML customer due diligence fees	75	-	75
Investigating accountant fees	120	-	120
Other costs	6	-	6
	1,848	1,346	3,194

The underwrite fee is based on a signed agreement with Centuria Platform Investments Pty Limited ("CPIPL"), a subsidiary of Centuria. The underwrite fee is calculated as 3% of \$48,769,500, being the total amount underwritten or committed by CPIPL under the underwriting agreement and Underwriting Loan agreement. \$1,346,103 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 remainder of the Offer costs are based on contractual obligations, quotes received and/or estimates made by the Manager using experience from managing similar investments.

1.2.10 Taxation

The Fund is a multi-rate portfolio investment entity (**PIE**). The Fund will attribute taxable income to unitholders based on their proportionate holding and pay tax based on their prescribed investor rates (**PIRs**).

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

1.2.11 Capital commitments

As at 31 March 2022, it is assumed that the Fund will have capital commitments of \$11,257,690 relating to the extension development at Anglesea Medical Centre. The Fund does not anticipate having any capital commitments as at 31 March 2023.

1.2.12 Contingent liabilities

The Fund does not anticipate having any contingent liabilities as at 31 March 2022 and 2023.

1.2.13 Going concern

The PFI has been prepared under the going concern assumption, which assumes the Fund will be able to pay its debts as they fall due in the normal course of business. At 31 March 2023, the current liabilities of the Fund are forecast to exceed its current assets by \$22,000. The Manager considers forecast liquidity levels, including \$4,276,000 of undrawn debt, and future operating cashflows will be sufficient to cover future obligations when they fall due.

1.2.14 Actual results

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

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

The PFI should be read in conjunction with Section 7 "Risks to Returns from the Centuria NZ Property Fund" 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 Property Fund (the "Fund").

The Fund is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and reports as a Tier 1 For Profit entity. The prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand 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 Fund will be prepared in accordance 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.

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 Fund and cost can be reliably measured. All other repairs and maintenance costs are expensed as incurred.

The building and the leases are considered as a single asset, because they are recognised and measured as a single identifiable asset. 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.

Financial assets

Financial assets, including certain rental underwrites, guarantees and retentions are fair valued at period end with the impact of changes in estimates recognised in profit or loss as a movement in fair value.

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 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 Fund 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 Fund prior to year-end which are unpaid and arise when the Fund 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 Fund 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.

Establishment costs

Establishment 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, and (3) 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 Comparison to the original prospective financial information

Prospective financial information for the period ending 31 March 2022 was previously prepared as part of the Fund's initial equity raise of \$38.5m in September 2020 (the "Original PFI"). New prospective financial information (the "New PFI") for that period has now been prepared in conjunction with the Offer.

The New PFI differs from the Original PFI primarily as a result of the acquisition of 26 Clarence Street and 196 Roydvale Avenue along with the \$50m equity raised in the current Offer. A reconciliation of the changes made to the Original PFI, and an explanation of the material differences and changes in assumptions are detailed below.

Prospective statement of comprehensive income

	New PFI 12 months ending 31 March 2022 \$000	Original PFI 12 months ending 31 March 2022 \$000	Variance 12 months ending 31 March 2022 \$000
Net property income	2,766	3,059	(293)
Administration expenses	(183)	(229)	46
Management fees	(352)	(283)	(69)
Finance expenses	(2,252)	(771)	(1,481)
Change in fair value of investment property	2,483	13	2,470
Total comprehensive income attributable to shareholders	2,462	1,789	673

Lower net property income due to higher R&M costs, partly offset by rental income received from the acquisitions of 26 Clarence Street and 196 Roydvale Avenue.

Lower administration expenses due to legal, tax and consultancy fees tracking lower than the Original PFI allowances.

Higher management fees due to the revaluation of Anglesea Medical Centre and the acquisitions of 26 Clarence Street and 196 Roydvale Avenue increasing total assets.

Higher finance expenses due to the Underwriting Loan fee being recognised as a finance expense, partly offset by lower borrowings from \$3m of oversubscriptions on the initial equity raised and the \$50m of additional investor equity being raised in the Offer.

Higher change in fair value of investment property due the independent valuation of Anglesea Medical Centre obtained as part of due diligence undertaken for the Offer being higher than that assumed in the Original PFI.

Prospective statement of financial position

	New PFI As at 31 March 2022 \$000	Original PFI As at 31 March 2022 \$000	Variance As at 31 March 2022 \$000
Total assets	80,073	57,706	22,367
Total liabilities	719	21,090	(20,371)
Net assets (equity)	79,354	36,616	42,738

Higher total assets due to the revaluation of Anglesea Medical Centre and the acquisitions of 26 Clarence Street and 196 Roydvale Avenue.

Lower total liabilities due to the repayment of borrowings from additional investor equity being raised in the Offer.

4 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 on key metrics is set out 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 year ending 31 March 2022 and the year ending 31 March 2023.

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 ("AOP") and Net Tangible Assets ("NTA") 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 Fund may take should a change in these assumptions arise. The cents per unit is represented as AOP earnings impact divided by the number of units issued.

FY22 impact	Cents per unit	\$'000
Operating profit before fair value movements	(0.04)	(\$21)
Adjusted Operating Profit	5.07	\$2,529
Interest rates		
Increase in interest rates +100 bps	(0.22)	(\$110)
Decrease in interest rates -100 bps	0.22	\$110
No equity redemptions		
No redemptions	(0.13)	\$1
Net tangible assets	98.51	\$79,354
No equity redemptions		
No redemptions	0.37	\$4,922
Investment property valuation		
Increase in property valuations (+5%)	4.88	\$3,930
Decrease in property valuations (-5%)	(4.88)	(\$3,930)
Extension development at Anglesea Medical Centre not complete by 31 March 2023 or not undertaken		
Anglesea Medical Centre extension development not undertaken	N/A	N/A
FY23 impact	Cents per unit	\$'000
Operating profit before fair value movements	3.32	\$2,672
Adjusted Operating Profit	4.45	\$3,581
Interest rates		
Increase in interest rates +100 bps	(0.01)	(\$7)
Decrease in interest rates -100 bps	0.01	\$7
No equity redemptions		
No equity redemptions	(0.07)	\$149
Nationwide COVID-19 restrictions after expiry of rental underwrites		
Nationwide COVID-19 restrictions after expiry of rental underwrites	(0.05)	(\$40)
Net tangible assets	101.19	\$81,516
No equity redemptions		
No redemptions	0.10	\$4,817
Investment property valuation		
Increase in property valuations (+5%)	5.88	\$4,733
Decrease in property valuations (-5%)	(5.88)	(\$4,733)
Extension development at Anglesea Medical Centre not complete by 31 March 2023 or not undertaken		
Anglesea Medical Centre extension development not undertaken	(4.90)	(\$3,945)

Notes

Interest rate sensitivity

Exposure to interest rate risk is in the normal course of operations. The sensitivity reflects the impact of an increase or decrease in the interest rates rate by 100 basis points.

No redemptions

The PFI assumes that \$5 million of equity is redeemed by existing investors. The sensitivity reflects the impact of no equity being redeemed assuming that it results in lower borrowings and lower gearing.

The cents per unit variance shown above is the difference between the assumed AOP per unit on the lower weighted average number of units on issue for the period (i.e. assuming \$5 million of redemptions) and the sensitised AOP per unit on the higher weighted average number of units on issue for the period (i.e. assuming no redemptions). In summary, if there are no redemptions, the total AOP would increase in periods where the Fund has lower borrowings, however the AOP per unit would decrease and distributions would be paid on a greater number of units.

Investment property valuation sensitivity

The sensitivity reflects the impact of an increase or decrease in property valuations assumed in the PFI at 31 March 2022 and 31 March 2023. There is no impact of an increase or decrease in property values on AOP, given the revaluation gains and losses are excluded from the AOP 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.

Extension development at Anglesea Medical Centre not complete by 31 March 2023 or not undertaken

The sensitivity reflects the impact of the extension development at Anglesea Medical Centre not being complete by 31 March 2023 or not being undertaken. There is no impact of this sensitivity on AOP, given the interest expense on the debt drawn to fund the development is capitalised. This sensitivity only has an impact on NTA in FY23 as the carrying value of Anglesea Medical Centre as at 31 March 2022 is assumed to represent the most recent independent valuations obtained during due diligence plus additional capital expenditure assumed during the PFI period.

Nationwide COVID-19 restrictions after expiry of rental underwrites

The sensitivity reflects the impact of nationwide COVID-19 restrictions for a two week period, in excess of what is assumed in the PFI. The sensitivity assumes that the restrictions result in total rent abatements of \$39,667 being provided. The sensitivity assumes that the period of restrictions occurs after the expiry of the underwrites being provided by Centuria Funds Management (NZ) Limited.

5 Reconciliation of non-GAAP financial information

The Manager's policy is to distribute up to 110% of Adjusted Operating Profit ("AOP") to Investors over the medium-term.

AOP is a non-GAAP financial measure adopted to assist the Manager in assessing the operating profit available for distribution. AOP does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities.

AOP is calculated by adjusting net profit after tax (determined in accordance with NZ IFRS) for certain non-cash, one-off, irregular and/or equity raising items, as described below. Further details are available in the Statement of Investment Policy and Objectives, which is available on the disclose register.

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

The following table is a reconciliation between the net profit after tax as per the Prospective Statement of Comprehensive Income (or the Statement of Comprehensive Income per the actual financial statements for FY21), and the AOP as per the Fund's dividend policy. The reconciliation has not been subject to an independent audit or review.

	Actual 8 months & 19 days ending 31 March 2021 \$000	PFI 12 months ending 31 March 2022 \$000	PFI 12 months ending 31 March 2023 \$000
Reconciliation of net profit after tax to AOP			
Prospective net profit after tax	1,845	2,462	6,551
Adjustments:			
Unrealised movement in the fair value of investment property	(1,070)	(2,483)	(3,879)
Amortisation of capitalised borrowing costs	43	225	-
Accrual for fixed rental growth	-	(17)	(20)
Rental income from Vendor Rental Underwrite financial asset	270	270	-
Non-recoverable repairs and maintenance funded from capital	2	726	929
Performance fees	149	-	-
Underwriting Loan component of underwrite fee	-	1,346	-
AOP	1,239	2,529	3,581
Payout ratio	93%	114%	123%

The Manager believes this non-GAAP disclosure is important as it shows the surplus available for distribution and this will be used when determining future distribution levels. AOP is calculated by making the following adjustments to net profit after tax (determined in accordance with NZ IFRS):

- Reversing unrealised fair value gains or losses on investments;
- Reversing unrealised fair value gains or losses on derivative financial instruments;
- Reversing unrealised foreign exchange gains or losses on investments (excluding foreign cash balances);
- Reversing gains or losses on disposal of investments;
- Removing accruals for fixed rental growth;
- Reversing non-recoverable repairs and maintenance expenditure where gearing (excluding loans that underwrite the Fund's capital raising) is forecast to remain below 45% as this is intended to be funded from capital;
- Reversing the amortisation of establishment or upfront payments in connection with entering into any derivative contract;
- 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 of the Fund or in respect of future equity raising;
- Reversing interest expense on loans that underwrite the Fund'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.

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.

	Actual 8 months & 19 days ending 31 March 2021 \$000	PFI 12 months ending 31 March 2022 \$000	PFI 12 months ending 31 March 2023 \$000
Net profit after tax	1,845	2,462	6,551
Add back: Finance expenses	342	2,252	111
Add back: Income tax	-	-	-
EBITDA	2,187	4,714	6,662
Reverse: Change in fair value of investment property	(1,070)	(2,483)	(3,879)
EBITDA adjusted for unrealised gains and losses	1,117	2,231	2,783

6 Forecast Unit Price as at 22 December 2021 (non-GAAP)

The following table is a reconciliation between the forecast Net Asset Value as at 22 December 2021 and the forecast Adjusted Net Asset Value and Unit Price as at 22 December 2021, being the price at which Units are being offered under the Offer. The reconciliation has not been subject to an independent audit or review.

	\$000 (unless otherwise indicated)
Forecast Net Asset Value as at 22 December 2021	38,564
Add: Establishment costs	4,067
Less: Capitalised borrowing costs	(321)
Less: Amortisation of establishment costs (excluding capitalised borrowing costs)	(850)
Less: Provision for estimated selling costs created over 5 years	(416)
Forecast Adjusted Net Asset Value as at 22 December 2021	41,043
Forecast Unit Price as at 22 December 2021 (\$)	1.07

Adjusted Net Asset Value is a non-GAAP financial measure used to determine the Unit Price for the Fund under the Trust Deed, calculated as Net Asset Value (determined in accordance with NZ IFRS) adjusted for the following:

- Where the Fund acquires an asset for an amount greater than its proportionate share of the underlying Net Asset Value, but records the value of the asset at its underlying Net Asset Value rather than its acquisition cost, an amount equal to the difference will be gradually written off on a "straight line" basis over five years from the time the asset is acquired. On the sale of all or part of the asset, any remaining amount will be reduced to zero;
- Establishment costs, capital raising costs and acquisition costs such as acquisition fees, brokerage fees, due diligence costs and legal costs will be gradually written off on a "straight line" basis over five years from the time the asset is acquired. On the sale of all or part of the asset, any remaining amount will be reduced to zero; and
- Where an asset has been purchased by the Fund, a provision against the value of an asset for the anticipated proportionate costs of selling that asset. This provision will be gradually recognised over five years from the time the asset is first acquired. This provision for any particular asset will be amended to reflect the actual costs of selling the asset once known and reduced to zero once the asset is sold.

7 Financial measures for the Fund'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 Fund. 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

	Actual As at 31 March 2021 \$000	PFI As at 31 March 2022 \$000	PFI As at 31 March 2023 \$000
Loan balance	19,800	-	13,168
Investment property valuation	56,700	78,605	94,667
Loan to value ratio	34.9%	0.0%	13.9%

The banking covenant requires that the loan to value ratio is to be no more than 55%.

The loan to value ratio tells you how much the Fund 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 Fund's investment property will need to be applied to repay its borrowings.

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

Interest cover ratio

	Actual 8 months & 19 days ending 31 March 2021 \$000	PFI 12 months ending 31 March 2022 \$000	PFI 12 months ending 31 March 2023 \$000
EBITDA adjusted for unrealised gains and losses	1,117	2,231	2,783
Interest expense on borrowings	(342)	(906)	(111)
Underwriting Loan fee	-	(1,346)	-
Interest cover ratio (including Underwriting Loan fee)	3.26	0.99	25.12
Interest cover ratio (excluding Underwriting Loan fee)	3.26	2.46	25.12

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 Fund's EBITDA adjusted for unrealised gains and losses exceeds interest on its loans (as a multiple). The higher the ratio, the more comfortably the Fund's income can cover any interest expense (and the lower risk to the Fund).

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