

22 May 2020

The Directors  
PMG Property Funds Management Limited  
143 Durham Street  
Tauranga

Dear Directors

**INDEPENDENT LIMITED ASSURANCE REPORT ON THE PROSPECTIVE FINANCIAL INFORMATION –  
PMG Direct Office Fund**

**INTRODUCTION**

We have prepared this Independent Limited Assurance Report (the “Report”) in accordance with our engagement letter dated 30 April 2020, on certain Prospective Financial Information of PMG Direct Office Fund (the “Fund”) for inclusion in the Offer Register to be dated on or about 22 May 2020. The Report is issued in respect of the offer of units in the Fund (the “Offer”).

Expressions defined in the Product Disclosure Statement (“PDS”) and the Fund’s Prospective Financial Information (“PFI”) have the same meaning in this Report. This report is an Independent Limited Assurance Report and the scope is set out below.

**SCOPE**

Baker Tilly Staples Rodway Audit Limited has been requested to prepare this Report to cover the prospective financial information:

The prospective financial information as set out in the PFI comprises:

- Prospective statements of comprehensive income of the Fund for the years ending 31 March 2021 and 2022;
- Prospective statements of financial position of the Fund as at 31 March 2021 and 2022;
- Prospective statements of changes in equity for the years ending 31 March 2021 and 2022;
- Prospective statements of cash flows of the Fund for the years ending 31 March 2021 and 2022; and
- Notes and assumptions to these prospective statements of comprehensive income, changes in equity, financial position and cash flows.

(hereafter, the “Prospective Financial Information”).

The Prospective Financial Information is based on the assumptions as outlined in the PFI.

We disclaim any assumption of responsibility for any reliance on this Report or on the Prospective Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared. This Report should be read in conjunction with the PDS and the PFI Supplementary Information.

**THE DIRECTORS RESPONSIBILITY FOR THE PROSPECTIVE FINANCIAL INFORMATION**

The Directors of PMG Property Funds Management Limited (as Manager’s) have prepared, and are responsible for, the preparation and presentation of the Prospective Financial Information. The Directors are also responsible for the determination of assumptions that have a reasonable and supportable basis (as required in FRS-42 *Prospective Financial Information* issued by the New Zealand External Reporting Board) as set out in the PFI.

## OUR RESPONSIBILITY

You have engaged Baker Tilly Staples Rodway Audit Limited to prepare a report which covers Prospective Financial Information for the years ending 31 March 2021 and 2022, including notes and assumptions included in the Disclose Register for the Offer which can be found at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose), SCH10921, offer name "PMG Direct Office Limited, OFR12881 " referred to as "Prospective Financial Information".

Our responsibility is to express a conclusion as a result of our limited assurance engagement on the Prospective Financial Information in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board. We also complied with the requirements of Professional and Ethical Standard 1 (Revised) and Professional and Ethical Standard 3 (Amended).

We have conducted an independent review of the Prospective Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention that would cause us to believe that in all material respects:

- The Directors best-estimate assumptions do not provide a reasonable and supportable basis (as defined in FRS 42) for the preparation of the Prospective Financial Information;
- The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;
- The Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand financial reporting standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Fund disclosed in the Prospective Financial Information of PMG Direct Office Fund as at and for the years ending 31 March 2021 and 2022; and
- The Prospective Financial Information is unreasonable.

The Prospective Financial Information has been prepared by the Directors to provide investors with a guide to the Fund's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur.

There is a considerable degree of subjective judgement involved in the preparation of the Prospective Financial Information. Actual results may vary materially from this Prospective Financial Information and the variation may be materially positive or negative. Accordingly, investors should have regard to the risks set out in Section 7 of the PDS.

Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to form the conclusion set out below.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Prospective Financial Information.

## EMPHASIS OF MATTER

As disclosed in assumption (k), property valuations at 31 March 2020 and 14 May 2020 have been issued on a material uncertainty basis, as there was no evidence available to assess the future impact of the COVID-19 pandemic and the lockdown on the property market. As such the valuers recommend that less certainty and a higher degree of caution should be attached to the property values than is normally the case, and that valuations should be frequently reviewed as values may change more rapidly and significantly than has previously been the case.

## **REVIEW CONCLUSION ON PROSPECTIVE FINANCIAL INFORMATION**

Based on our review of the Prospective Financial Information, which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions giving rise to the Prospective Financial Information, nothing has come to our attention which causes us to believe that:

- The Directors best-estimate assumptions do not provide a supportable and reasonable basis (as defined in FRS 42) for the preparation of the Prospective Financial Information;
- The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;
- The Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand financial reporting standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Fund disclosed in the Prospective Financial Information of the Fund as at and for the years ending 31 March 2021 and 2022; and
- The Prospective Financial Information is unreasonable.

The best-estimate assumptions set out in the PFI are subject to significant uncertainties and contingencies often outside the control of the Fund and the Directors. If events do not occur as assumed, actual results achieved, and distributions provided by the Fund may vary significantly from the Prospective Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Prospective Financial Information, as future events, by their very nature, are not capable of independent substantiation.

## **INDEPENDENCE OR DISCLOSURE OF INTEREST**

Baker Tilly Staples Rodway Audit Limited does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Baker Tilly Staples Rodway Audit Limited will receive a professional fee for the preparation of this Report.

## **RESTRICTIONS ON THE USE OF OUR REPORT**

The report is made solely to the Directors of PMG Property Funds Management Limited. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Directors for the conclusions we have formed.

We disclaim any assumption of responsibility for any reliance on this Report or the amounts included in the Prospective Financial Information to which this Report relates for any purpose other than the purpose for which it was prepared. In addition, we take no responsibility for, nor do we report on, any part of the PDS or information in the Offer Register not specifically mentioned in this report.

Yours faithfully



**BAKER TILLY STAPLES RODWAY AUDIT LIMITED  
TAURANGA**

**PMG Direct Office Fund**  
**Supplementary Information – Prospective Financial Information**  
**SCH10921 OFR12881**  
**Basis of preparation**

The prospective financial information included below is for the reporting entity PMG Property Funds Management Limited (the **Manager**) in respect of the PMG Direct Office Fund (the **Fund**). The Fund is established under the Financial Markets Conduct Act 2013 (**FMCA**) and registered and domiciled in New Zealand. The Fund is a Managed Investment Scheme and is principally involved in the ownership and management of investment property in New Zealand. The Fund was registered and established on 1 November 2016, and commenced trading on 14 December 2016.

The Fund was established to hold property in a geographically diverse commercial portfolio of primarily office buildings. Initially the Fund acquired properties managed by the Manager as stand-alone schemes, and subsequently purchased additional buildings. The Fund currently owns seven properties and intends to purchase an eighth. Further information about the Manager's investment strategy are set out in the Statement of Investment Policies and Objectives for the Fund. The supervisor of the Fund is Covenant Trustee Services Limited (the **Supervisor**).

The Manager is offering investors up to 34,000,000 units in the Fund at \$1.18 each (the **Offer**). The Manager is making the Offer to raise capital to provide funding for the Fund to acquire a further property located in Christchurch (the **Acquisition Property**). The Product Disclosure Statement (**PDS**) for the Offer dated on or around 22 May 2020 can be found at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose), by searching "PMG Direct Office Fund" under "search for an offer".

The Prospective Financial Statements have been prepared for the purpose of the Offer as required by the Financial Markets Conduct Regulations 2014 (**Regulations**) and may not be suitable for any other purpose.

The Prospective Financial Statements for the Fund were prepared and authorised by the directors of the Manager as at 22 May 2020 for use in the PDS and not for any other purpose. The Manager is responsible for the Prospective Financial Statements including the assumptions underlying the Prospective Financial Statements and all other required disclosures.

The Prospective Financial Statements, which include a Prospective Statement of Comprehensive Income, Prospective Statement of Changes in Equity, Prospective Statement of Financial Position and Prospective Statement of Cash Flows, are prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements (**FRS 42**). Also included in the prospective information are the statement of accounting policies, key assumptions on which the Prospective Financial Statements are based, and a sensitivity analysis regarding those key assumptions.

The Prospective Financial Statements, including the assumptions on which they are based, are the responsibility of, and have been prepared by, the Directors of the Manager and are based on events and conditions existing as at the date of the PDS. The Directors of the Manager have given due care and attention to the preparation of the Prospective Financial Statements, including the underlying assumptions. These assumptions should be read in conjunction with the sensitivity analysis on page 21-22 of the Prospective Financial Statements, the risks set out in Section 7 of the PDS, and the Fund's accounting policies, which can be found in the section entitled "Statement of Accounting Policies" below.

Prospective Financial Statements, by their nature, are inherently uncertain. The Prospective Financial Statements are a prediction of future events that cannot be assured. They involve risks and uncertainties, many of which are beyond the control of the Fund and the Manager. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Further risks are set out in Section 7 of the PDS. Various risk factors and the management of those risk factors may influence the success of the Fund's business. Accordingly, actual results are likely to vary from the Prospective Financial Statements, and these variations may be significantly more or less favourable to the Fund. Therefore, the Directors of the Manager cannot and do not guarantee the achievement of the prospective financial information included within the Prospective Financial Statements.



**PMG Direct Office Fund**  
**Supplementary Information – Prospective Financial Information**  
**SCH10921 OFR12881**

The Prospective Financial Statements are based on one or more hypothetical but realistic assumptions. The actual results may differ from the Prospective Financial Statements if there are fluctuations in the various factors contributing to the Fund's performance, position, and cash flows. The resulting variance may be material. Neither the Fund, the Directors of the Manager, nor any other person give a guarantee or assurance that the Prospective Financial Statements presented will be achieved.

There is no present intention to update the Prospective Financial Statements or to publish Prospective Financial Statements in the future for the Fund, other than as required by the Financial Reporting Act 2013, the Regulations or New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**). The Manager will present a comparison of the Prospective Financial Statements with actual financial results when reported in accordance with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**) and Regulation 64 of the FMC Regulations.

The projected returns shown below are based on holding one or more parcels of 46,000,000 units from 1 April 2020 to 30 June 2020, and one or more parcels of 80,000,000 units from 1 July 2020 onwards and calculated on the basis of distributions from available cash surpluses. It is presumed the maximum equity to be raised from the Offer, 34,000,000 Units at \$1.18 each, is achieved.

The accounting policies assumed in the Prospective Financial Statements reflect the policies currently adopted by the Manager in the annual financial statements of the Fund for the year to 31 March 2020, which are also expected to be adopted by the Manager in future reporting periods. Additional policies will also be adopted by the Manager as a result of the acquisition of the Acquisition Property, as the Fund will become a lessee in relation to part of the acquisition property, as well as a lessor.

The Fund has already entered the PIE regime and is not liable for income tax.

PMG Direct Office Fund  
 Supplementary Information – Prospective Financial Information  
 SCH10921 OFR12881  
 PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEARS ENDING 31 MARCH

	2021	2022
	\$	\$
<b>Revenue</b>		
Rent from investment properties	8,558,891	10,370,926
Property operating expenses recovered	1,874,980	2,208,800
Other income	-	-
<b>Total revenue</b>	<b>10,433,871</b>	<b>12,579,726</b>
<b>Less expenses</b>		
Property operating expenses	(2,346,814)	(2,565,980)
Audit fees	(55,000)	(55,000)
Supervisor fees	(20,000)	(20,000)
Property & Fund management fees	(876,870)	(1,007,057)
Other overhead expenses	(156,086)	(166,796)
<b>Total expenses</b>	<b>(3,454,770)</b>	<b>(3,814,834)</b>
<b>Operating Profit</b>	<b>6,979,102</b>	<b>8,764,892</b>
<b>Finance costs</b>		
Interest expense	(2,036,013)	(2,319,224)
Leasing expense	(241,623)	(321,781)
<b>Net financing costs</b>	<b>(2,277,636)</b>	<b>(2,641,006)</b>
Unrealised gain/(loss) on value of investment property	(1,127,101)	-
<b>Profit before income tax</b>	<b>3,574,364</b>	<b>6,123,887</b>
Income tax expense	-	-
<b>Net profit for the year</b>	<b>3,574,364</b>	<b>6,123,887</b>
Other comprehensive income net of tax	-	-
<b>Total comprehensive income for the year</b>	<b>3,574,364</b>	<b>6,123,887</b>



PMG Direct Office Fund  
 Supplementary Information – Prospective Financial Information  
 SCH10921 OFR12881  
 PROSPECTIVE STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEARS ENDING 31 MARCH

	Issued Units \$	Retained Earnings \$	Total Equity \$
<b>Balance as at 1 April 2020</b>	<b>46,110,774</b>	<b>8,714,091</b>	<b>54,824,865</b>
Net profit for the year and total comprehensive income	-	3,574,364	3,574,364
<i>Transactions with investors in their capacity as investors:</i>			
Issuance of Units	40,120,000	-	40,120,000
Unit issue transaction costs	(2,101,650)	-	(2,101,650)
Distributions to investors	-	(4,724,167)	(4,724,167)
<b>Balance at 31 March 2021</b>	<b>84,129,124</b>	<b>7,564,288</b>	<b>91,693,413</b>
<b>Balance as at 1 April 2021</b>	<b>84,129,124</b>	<b>7,564,288</b>	<b>91,693,413</b>
Net profit for the year and total comprehensive income	-	6,123,887	6,123,887
<i>Transactions with investors in their capacity as investors:</i>			
Distributions to investors	-	(6,040,000)	(6,040,000)
<b>Balance at 31 March 2022</b>	<b>84,129,124</b>	<b>7,648,175</b>	<b>91,777,300</b>

PMG Direct Office Fund  
 Supplementary Information – Prospective Financial Information  
 SCH10921 OFR12881  
 PROSPECTIVE STATEMENT OF FINANCIAL POSITION  
 AS AT 31 MARCH

	2021	2022
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	224,790	178,486
Trade and other receivables	-	-
Other current assets	770,094	628,593
	<b>994,885</b>	<b>807,080</b>
<b>Non-current assets</b>		
Investment property	150,049,859	151,724,523
Right of use asset	5,000,211	5,000,211
	<b>155,050,069</b>	<b>156,724,734</b>
<b>TOTAL ASSETS</b>	<b>156,044,954</b>	<b>157,531,813</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	441,224	465,841
Distribution payable	433,333	503,333
Derivative financial instruments	1,262,750	1,262,750
Lease liabilities – current portion	313,426	315,130
	<b>2,450,733</b>	<b>2,547,054</b>
<b>Non-current liabilities</b>		
Secured bank borrowings – non-current portion	57,215,402	58,515,402
Lease liabilities – non-current portion	4,685,406	4,692,058
	<b>61,900,808</b>	<b>63,207,460</b>
<b>TOTAL LIABILITIES</b>	<b>64,351,541</b>	<b>65,754,514</b>
<b>TOTAL EQUITY</b>	<b>91,693,413</b>	<b>91,777,300</b>



**PMG Direct Office Fund**  
**Supplementary Information – Prospective Financial Information**  
**SCH10921 OFR12881**  
**PROSPECTIVE STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDING 31 MARCH**

	2021	2022
	\$	\$
<b>Cash Flows from operating activities</b>		
<b>Cash was provided from:</b>		
Receipts from tenants	10,104,956	12,678,048
Net GST recovered	95,950	19,863
<b>Cash was applied to:</b>		
Payments to suppliers	(5,018,087)	(4,080,327)
Net GST paid		
Interest and other finance costs paid	(2,036,013)	(2,319,224)
<b>Net cash inflow from operating activities</b>	<b>3,146,806</b>	<b>6,298,361</b>
<b>Cash Flows from investing activities</b>		
<b>Cash was applied to:</b>		
Purchase of investment property and capital expenditure	(61,525,805)	(1,674,665)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(61,525,805)</b>	<b>(1,674,665)</b>
<b>Cash Flows from financing activities</b>		
<b>Cash was provided from:</b>		
Proceeds from issue of units	40,120,000	-
Proceeds from borrowing	25,000,000	1,300,000
<b>Cash was applied to:</b>		
Unit issue transaction costs	(2,101,650)	-
Distributions to Investors	(4,578,333)	(5,970,000)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>58,440,017</b>	<b>(4,670,000)</b>
Net increase/(decrease) in cash and cash equivalents	61,017	(46,304)
Cash and cash equivalents at the start of the financial year	163,773	224,790
<b>Cash and cash equivalents at the end of the financial year</b>	<b>224,790</b>	<b>178,486</b>