PROSPECTIVE FINANCIAL INFORMATION
RELATING TO AN OFFER OF UNITS IN PMG DIRECT OFFICE FUND

Issuer:	PMG Property Funds Management Limited
Scheme:	PMG Direct Office Fund
Scheme Reference:	SCH10921
Related to Offer:	OFR13655

Basis of preparation

The prospective financial information included below is for the reporting entity PMG Property Funds Management Limited (the **Manager**) in respect of 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 a geographically diverse commercial property portfolio of principally office buildings. Further information about the Manager's investment strategy is 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 between 6,250,000 units (the **Minimum Equity Raise**) and 21,000,000 units (the **Maximum Equity Raise**) in the Fund at $0.95 each (the **Offer**) and will not accept subscriptions above the **Maximum Equity Raise**. The Prospective Financial Statements have been prepared on the assumption that 10,530,000 units at $0.95 per unit are issued from the Offer on 30 November 2023. It is therefore assumed that investors hold one or more parcels of 78,000,000 units from 1 April 2023 to 30 November 2023, and one or more parcels of 88,530,000 units from 1 December 2023 to 31 March 2025.

The Manager is making the Offer to raise funds to enable the Fund to initially reduce bank borrowings and increase cash on hand. In future, the Fund intends to fund a combination of ongoing capital expenditure requirements, and further property investments, using its cash on hand and new bank borrowings. The total funds raised will also be used to pay the costs associated with the issue of units.

The Product Disclosure Statement (**PDS**) for the Offer dated on or around 3 November 2023 can be found at http://www.business.govt.nz/disclose by clicking "search for an offer" and searching for "PMG Direct Office Fund".

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 on 3 November 2023 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 23-25 of the Prospective Financial Statements, the risks set out in the PDS at Section 7 *Risks to Returns from PMG Direct Office Fund*, and the Fund's accounting policies, which can be found in the section entitled *Statement of Accounting Policies* below.

Basis of preparation (continued)

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 the PDS at Section 7 *Risks to Returns from PMG Direct Office Fund*. 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.

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.

Gross cash distribution returns are calculated based on distributions planned. Such distributions may be above or below the amounts forecast. Distributions may be above or below the adjusted funds from operations (**AFFO**), and distributions divided by AFFO (**Payout Ratio**) may be above or below 100%, as disclosed further in the PDS.

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 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 2023, which are also expected to be adopted by the Manager in future reporting periods.

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

PMG Direct Office Fund
Supplementary Information for PDS dated on or around 3 November 2023
Prospective Financial Information for SCH10921 and OFR13655

PROSPECTIVE STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH

	Note	2024 $	2025 $
ASSETS			
Current assets			
Cash and cash equivalents		547,000	931,000
Trade and other receivables		209,000	198,000
Prepayments		139,000	143,000
Other current assets		1,080,000	1,493,000
Derivative financial instruments		738,000	738,000
		2,713,000	**3,503,000**
Non-current assets			
Investment properties	2(j)	135,875,000	137,527,000
		135,875,000	**137,527,000**
Total assets		**138,588,000**	**141,030,000**
LIABILITIES			
Current liabilities			
Trade and other payables		664,000	484,000
Distributions payable		432,000	432,000
Income received in advance		358,000	2,176,000
Other current liabilities		58,000	70,000
		1,512,000	**3,162,000**
Non-current liabilities			
Borrowings		34,377,000	36,727,000
Lease liabilities		19,659,000	19,668,000
		54,036,000	**56,395,000**
Total liabilities		**55,548,000**	**59,557,000**
EQUITY			
Paid up issued units		91,191,000	91,191,000
Retained earnings		(8,151,000)	(9,718,000)
Total equity		**83,040,000**	**81,473,000**
Total equity and liabilities		**138,588,000**	**141,030,000**

Authorised on 3 November 2023 by:

Scott McKenzie
Director
PMG Property Funds Management Limited

Nigel Lowe
Director
PMG Property Funds Management Limited

PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDING 31 MARCH

	Note	2024 $	2025 $
Revenue			
Rent from investment properties	2(c)	10,230,000	9,614,000
Operating expense recoveries		2,326,000	1,985,000
Total revenue		**12,556,000**	**11,599,000**
Less expenses			
Property operating expenses		(2,340,000)	(2,306,000)
Property & Fund management fees		(858,000)	(841,000)
Supervisor fees		(51,000)	(49,000)
Audit fees and other assurance services		(74,000)	(82,000)
Accountants' remuneration		(11,000)	(13,000)
Valuation fees		(46,000)	(38,000)
Consultancy & legal fees		(4,000)	(6,000)
Other administration costs		(84,000)	(94,000)
Total expenses		**(3,468,000)**	**(3,429,000)**
Operating Profit		**9,088,000**	**8,170,000**
Less net finance expenses			
Interest revenue		69,000	24,000
Interest expense			
- Interest on bank borrowings		(2,510,000)	(2,601,000)
- Interest charge on lease liabilities		(1,184,000)	(1,184,000)
Net finance expense		**(3,625,000)**	**(3,761,000)**
Other income and expenses			
Net fair value gain/(loss) on investment properties	2(j)	(9,941,000)	-
Net gain/(loss) on disposal of investment properties	2(j)	831,000	-
Fair value movement on derivative financial instruments		(257,000)	-
Profit/(loss) before income tax		**(3,904,000)**	**4,409,000**
Income tax expense		-	-
Net profit/(loss) for the year		**(3,904,000)**	**4,409,000**
Other comprehensive income net of tax		-	-
Total comprehensive income for the year		**(3,904,000)**	**4,409,000**

PMG Direct Office Fund
Supplementary Information for PDS dated on or around 3 November 2023
Prospective Financial Information for SCH10921 and OFR13655

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDING 31 MARCH

	Issued Units $	Retained Earnings $	Total Equity $
Balance as at 1 April 2023	**81,830,000**	**794,000**	**82,624,000**
Net profit(/loss) for the year and total comprehensive income	-	(3,904,000)	(3,904,000)
Transactions with investors in their capacity as investors:			
Issuance of units	10,003,000	-	10,003,000
Unit issue transaction costs	(642,000)	-	(642,000)
Distributions to investors	-	(5,041,000)	(5,041,000)
Balance at 31 March 2024	**91,191,000**	**(8,151,000)**	**83,040,000**
Balance as at 1 April 2024	**91,191,000**	**(8,151,000)**	**83,040,000**
Net profit/(loss) for the year and total comprehensive income	-	4,409,000	4,409,000
Transactions with investors in their capacity as investors:			
Distributions to investors	-	(5,976,000)	(5,976,000)
Balance at 31 March 2025	**91,191,000**	**(9,718,000)**	**81,473,000**

PROSPECTIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDING 31 MARCH

	2024 $	2025 $
Cash Flows from operating activities		
Cash was provided from:		
Receipts from tenants	11,099,000	13,219,000
Net GST recovered	1,000	12,000
Interest income	69,000	25,000
Cash was applied to:		
Payments to suppliers	(3,623,000)	(3,636,000)
Leasehold interest costs	(1,210,000)	(1,175,000)
Bank interest and other financing costs paid	(2,510,000)	(2,601,000)
Net cash inflow from operating activities	**3,826,000**	**5,844,000**
Cash Flows from investing activities		
Cash was provided from:		
Sale of investment properties	16,750,000	-
Cash was applied to:		
Investment properties - capital expenditure	(4,774,000)	(1,834,000)
Net cash inflow/(outflow)from investing activities	**11,976,000**	**(1,834,000)**
Cash Flows from financing activities		
Cash was provided from:		
Proceeds from issue of units	10,003,000	-
Proceeds from borrowing	1,420,000	2,350,000
Cash was applied to:		
Repayment of borrowings	(21,775,000)	-
Unit issue transaction costs	(642,000)	-
Distributions to investors	(5,065,000)	(5,976,000)
Net cash inflow/(outflow) from financing activities	**(16,059,000)**	**(3,626,000)**
Net increase/(decrease) in cash and cash equivalents	(257,000)	384,000
Cash and cash equivalents at the start of the financial year	804,000	547,000
Cash and cash equivalents at the end of the financial year	**547,000**	**931,000**

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. Statement of accounting policies

(a) **Functional and presentation currency:** The Prospective Financial Statements are presented in New Zealand dollars ($), which is the Fund's functional currency, and are rounded to the nearest thousand dollars.

(b) **Relevant preparation periods:** The Prospective Financial Statements of the Fund have been prepared for the years ending 31 March 2024 and 31 March 2025. Actual management reporting results have been included for the five months to 31 August 2023 and prospective information for the subsequent period to 31 March 2024, and the year to 31 March 2025.

(c) **Financial instruments:**

Held at amortised cost

- **Cash and Cash Equivalents**: Cash and cash equivalents include cash on hand, deposits held on call with financial institutions, and other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
- **Trade and Other Receivables**: Trade and Other Receivables include lease receivables which are initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method, less any loss allowance. Trade and Other Receivables are generally due for settlement within 30 days. The Fund applies the simplified approach thereby recognising lifetime expected credit losses on Trade and Other Receivables. A provision matrix is used to determine the lifetime expected credit loss. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.
- **Trade and Other Payables**: These amounts represent liabilities for goods and services provided to the Fund prior to the end of the financial year and which are unpaid. They are initially recognised at fair value and subsequently measured at amortised cost. Due to their short-term nature, they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition, and as a result are recorded at the invoice amount with no accrued interest. Trade and Other Payables are classified as financial liabilities measured at amortised cost.
- **Borrowings**: Loans and borrowings are recognised initially at fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. 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.
- **Lease Liabilities**: Lease liabilities are initially recorded at the estimated present value of minimum lease payments, and subsequently stated at amortised cost using the effective interest method with a finance charge included within the statement of comprehensive income. Lease liabilities 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.

Held at fair value through profit or loss

- **Derivatives**: Derivatives consist of interest rate swaps that are only used for economic hedging purposes and not as speculative investments. The Fund has elected not to apply hedge accounting criteria to these instruments. As such, the interest rate swaps are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. Statement of accounting policies (continued)

(d) **Other current assets:** Consist of lease income adjustments, and deferred leasing commissions. Other current assets are recognised initially at cost, and subsequently amortised to the profit and loss. Lease income adjustments include lease inducements provided to tenants to incentivise them to enter into lease agreements, and adjustments to spread contractual rental amounts across the term of a lease. Deferred leasing commissions include leasing commissions to agents.

(e) **Investment properties:** Principally comprises freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Fund. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured no less than annually at fair value. Movements in fair value are recognised directly in profit or loss. Investment properties are derecognised when disposed of or when there is no future economic benefit expected. Any gains or losses on the disposal of an investment property are recognised in profit or loss in the year of disposal and is calculated as the difference between the sale price and the carrying value of the property plus the carrying value of any related lease adjustments in other current assets.

Given the inherent uncertainty of revaluation movements beyond those valuations held as at the date of this Prospective Financial Information, revaluations are only recorded up to the date of the latest valuations received as at the date of this PDS. See assumptions, paragraph (j) for further details.

(f) **Expenditure**:

i) Manager's fees: The Manager charges the Fund for several types of fees:

***Property and Fund Management Fees**:* The Manager is entitled to a management fee equal to 0.50% of the carrying value of the investment property assets in the Fund, based on the carrying value as at the beginning of the applicable financial year (i.e. 1 April). The Manager is also entitled to a property management fee of 2.00% of the gross annual rental of the investment property assets in the Fund. The management fees are paid to the Manager monthly in respect of the property and funds management services provided by the Manager during the prior month.

***Performance Fee**:* The Manager is entitled to a performance fee equivalent to 20% of the excess performance above the Fund's performance benchmark. The current performance benchmark is the average 10-year government bond yield for the relevant performance period, plus 6%. Performance is measured by the annual capital and income returns to investors at the end of each financial year against the performance benchmark. If this performance measurement is a negative return, no performance fee is payable in respect of that year. The Fund applies a "high water mark" to the Performance Fee. The fee is included within the Statement of Comprehensive Income in March of each financial year, when incurred by the Fund.

Property transaction fees: The Manager is entitled to several property transaction fees:

a) On purchasing a property, an acquisition fee of the greater of $150,000 and 1.00% of the acquisition price of investment properties (**Acquisition Fee**). Such fees will no longer be payable if the value of the Fund's Property Portfolio exceeds $250 million.

b) On disposal of a property held by the Fund, a fee equal to 1.00% of the sales price for the property is also payable to the Manager (**Disposal Fee**).

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. Statement of accounting policies (continued)

(f) Expenditure (continued):

(i) Manager's fees (continued)

Property transaction fees (continued):

c) If construction or refurbishment is undertaken on a property owned by the Fund, a fee equal to 5.00% of the development costs is payable (excluding GST) provided the development costs exceed $50,000 (excluding GST) (**Project Fee**).

d) If the Fund undertakes an investigation into the acquisition of a new property or disposal of an existing property from the Fund, a fee (**Investigation Fee**), on a time and attendance basis, as agreed between the Manager and Supervisor, is payable. If the Manager is paid an Investigation Fee and the relevant transaction subsequently proceeds, an amount equal to the Investigation Fee will be deducted from the Acquisition Fee or Disposal Fee.

e) The Manager is entitled to recover any costs incurred by the Manager from any consultants or advisers engaged in relation to property acquisition, disposal, investigation, construction, or refurbishment subject to those costs being approved by the Supervisor.

The Acquisition Fee and Project Fee are included within the carrying value of investment properties in the Statement of Financial Position. The Disposal Fee and Investigation Fee are included within the Statement of Comprehensive Income when incurred by the Fund.

Other Property-related Fees: If the Manager, with the approval of the Supervisor, undertakes any works related to any of the properties in the Fund that do not fit within any of the obligations contemplated under schedule 2 of the Establishment Deed related to fees, the Manager is entitled to be paid out of the Fund such fees for those works calculated on a "time in attendance" market rate, as agreed between the Manager and Supervisor.

Termination fee: If the Manager is removed as Manager of the Fund, the Manager is entitled to a sum equivalent to the Property and Fund Management Fees for the last full Financial Year preceding the removal.

ii) Supervisor's fees – The Supervisor is entitled to:

a) An annual base fee, as agreed between the Manager and the Supervisor, based on the Net Asset Value (**NAV**) of the Fund. The fee is subject to a minimum annual fee of $20,000 and a maximum annual fee of 0.06% of the Net Asset Value of the Fund; and

b) Special fees, in amounts agreed with the Manager, for any services provided by the Supervisor of an unusual or onerous nature outside of the Supervisor's regular services.

iii) Recovery of other expenses - The Manager and Supervisor are entitled to be reimbursed by the Fund for certain fees and expenses. These include costs incurred in connection with the offer of units, the acquisition of properties, the investigation and negotiation of additional properties for the Fund, the fees and expenses of the Fund's auditor, any fees or expenses incurred for any engagement by the Supervisor or as required by law, and any taxes, duties, imposts or levies charged to the Manager or Supervisor in connection with the Fund. The Supervisor is entitled to be reimbursed by the Fund for certain other fees and expenses, including the costs of convening and holding Investor meetings, professional services fees (legal, accounting, etc) incurred by the Supervisor in the discharge of their duties under the Master Trust Deed, communication and postage costs, expenses relating to the Unit registrar, and any other expenses properly and reasonably incurred by the Supervisor in connection with carrying out their duties under the Master Trust Deed.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. Statement of accounting policies (continued)

(g) **Leases:** The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement convey a right to use the asset.

As Lessor:
The Fund only enters leases where it retains substantially all risk and ownership of the leased asset. All such leases are therefore classified as operating leases. All leased assets are included within Investment Properties.

As Lessee:
The Fund is a Lessee in respect of the carpark lease contract associated with the Tuam Street property and a ground lease in respect of the Fanshawe Street property. The Fund recognises a right of use asset and a lease liability in relation to this lease. The Right of Use asset is initially measured at cost, which comprises the minimum lease payments at the initial commencement date, plus any initial direct costs incurred, lease any lease incentives received. The Right of Use asset is subsequently measured to fair value annually to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the later of the lease commencement date and the date of accounting policy adoption, discounted using the Fund's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the Right of Use asset, or it is recorded in profit or loss if the carrying amount of the Right of Use asset has been reduced to zero. The Fund presents lease liabilities on the face of the Statement of Financial Position, to clearly highlight the difference between these and the Fund's bank borrowings. Right of Use assets that meet the definition of investment property are presented together with other investment properties.

(h) **Revenue recognition:** The Fund receives income from tenants under commercial leases which set out the terms that the tenant must meet so they are not in default of their lease. The leases state the term of the lease, any renewals of the lease and the rent and operating expenses that must be paid and any review of the rental amount.

Revenue is recognised when a performance obligation is satisfied. Revenue is measured at the fair value of the consideration received or receivable.

Rent - Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives/inducements granted are recognised as current assets and amortised as a reduction in rental revenue over the remaining lease term.

Operating expense recoveries - Tenants pay the Fund for Operating Expenses. These are recoveries of expenses incurred by the Fund in relation to investment properties. The tenants are charged a monthly amount towards these operating costs based on an annual budget for each property and have annual wash-up reconciliations provided by the Fund to settle any under or overcharges of actual costs incurred versus costs recharged.

Operating expense recoveries are recognised when invoiced monthly, which is in line with when the Fund meets their performance obligations for the services provided. The outgoings recovered are based on the terms of the tenant's leases and the costs of the outgoings. There are no discounts provided or finance components applicable to such costs, so the transaction price is allocated on a straight-line basis.

Rent revenue and some outgoings recovered from the tenants are considered part of a lease and are dealt with under the scope of NZ IFRS 16 – Leases, and so are outside the scope of

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. Statement of accounting policies (continued)

(h) **Revenue recognition (continued):** NZ IFRS 15 – Revenue from Contracts with Customers. The outgoings recovered that are dealt with under the scope of NZ IFRS 16 - Leases are closely related to the lease of the building and the tenant does not receive an additional separate service to the space when it reimburses those items to the Fund. These are expenses such as rates, insurance, lift expenses, valuations, fire expenses, plumbing and electricity maintenance and air conditioning services.

The outgoings recovered that the Fund has identified as being under the scope of NZ IFRS 15 - Revenue from Contracts with Customers, are electricity, rubbish collection, cleaning, gardening services, management expenses and security expenses. This is because they are an additional service over and above the lease of rental space and so should be accounted for separate to the lease income.

Interest - Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(i) **Finance expenses:** Finance expenses attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

(j) **Issued units:** Units issued are classified as equity. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds from issue of those units.

(k) **Distributions payable:** Distributions payable are recognised when declared during the financial year and no longer at the discretion of the Fund.

(l) **Goods and Services Tax (GST):** Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Inland Revenue Department. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position. Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(m) **Income Tax:** The Fund elected to be a Portfolio Investment Entity (**PIE**) from the commencement date of the Fund as such is not liable for income tax. However, the Fund is required to allocate income to investors under one of the options available under the PIE rules, daily or quarterly. The Fund distributed 100% of adjusted net income (being surplus less adjustments for fair value recognition) to investors and as a result the Fund has no undistributed surplus that would be liable for tax.

The Fund deducts tax at the investors Prescribed Investor Rates (**PIR**) of either 0%, 10.5%, 17.5% or 28%. The tax rate is capped at 28%. The tax deducted is a debt due to the Crown and is paid directly to the Inland Revenue Department on the investors' behalf. If any income is not allocated to investors, it is liable for tax at 28%.

(n) **Impairment of non-financial assets:** Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. Statement of accounting policies (continued)

(n) Impairment of non-financial assets (continued):

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

The Fund assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Fund and to the asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate several key estimates and assumptions.

(o) Provisions: Provisions are recognised when the Fund has a present (legal or constructive) obligation because of a past event, it is probable the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

(p) Fair value measurement: When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs, and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in the fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(q) Changes in accounting policies: No changes in accounting policies are included in these prospective financial statements, nor are anticipated in prospective reporting periods, compared to those included in the most recent financial statements prepared for the Fund.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions

The principal assumptions on which the Prospective Financial Statements have been prepared are set out below. These assumptions should be read in conjunction with the risks set out in the PDS at Section 7 *Risks to Returns from PMG Direct Office Fund* and the sensitivity analysis shown further below in this section.

(a) **Offer settlement and costs:** It is expected that 10,530,000 units at $0.95 each will be issued on 30 November 2023, when the Offer is expected to settle. The Fund is assumed to incur $642,000 of costs associated with the Offer. The costs are accounted for within equity. Offer costs include an underwriting commitment fee, contribution fee, legal and other due diligence fees, and marketing costs – among other expenses related to the offer.

(b) **Change to Material Lease - One New Zealand Lease**

A Deed of Surrender dated 25 October 2023 (**Surrender Agreement)** has been entered by the Fund in relation to the Fund's current largest tenant, One New Zealand (formerly Vodafone), currently the primary tenant at the Tuam Street Property. The Surrender Agreement stipulates that One New Zealand will surrender 3,751 sqm of its currently leased area (**Surrendered Area**) on 1 April 2024 (**Surrender Date**). The Surrendered Area represents 42% of the net lettable area at the property, and 17% of the net lettable area of the Fund's Property Portfolio.

In exchange for the surrender of this space, One New Zealand will pay the Fund an amount equal to $3,100,000 + GST (**Surrender Payment**), on or before the Surrender Date. It is assumed the Surrender Payment is recognised as Rent from Investment Properties in the Statement of Comprehensive Income from the Surrender Date to the current lease expiry date of August 2028 (see note 2 (c) below for more detailed leasing assumptions related to the Tuam Street Property).

One New Zealand's lease agreement includes a market rent review in August 2022. The market rent review concluded in October 2023. During the period to October 2023, One New Zealand continued payment of their lease obligations in full (prior to the market rent review amount being determined and concluded). One New Zealand also pay rental obligations during the month prior to invoice date. Any payments made by One New Zealand in excess of their effective lease obligation, or in advance of their due date, have collectively been recognised within Income Received In Advance in the Statement of Financial Position. In October 2023, on agreement of the market rent review, it has been assumed that income received in advance is released to the Statement of Comprehensive Income within Rent from Investment Properties.

Lease adjustment assets related to the Surrendered Area are expected to total $51,000 at the Surrender Date and are presumed to be released to Rent from Investment Properties in the Statement of Comprehensive Income in the year to 31 March 2025.

(c) **Rental Income:** The Prospective Financial Statements assume annual rental income will be received in accordance with current signed lease agreements for each currently leased space. Several further assumptions are made in connection with the timing of vacancy, leasing up and rent reviews during the forecast period based on the expectations of the Manager.

Property operating expenses are generally recoverable to the extent a property is tenanted, with some exceptions that may be specified in gross or semi-net leases. Approximately 91% and 80% of total property operating expenses recorded in the Statement of Comprehensive Income, plus any building management fees charged to tenants, are expected to be recoverable from tenants in the years ending 31 March 2024 and 31 March 2025, respectively.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(c) Rental Income (continued):

The occupancy forecast for the Fund overall, rounded to two decimals places, is as follows:

As at date	Total Occupancy Rate
1 April 2023	**99.4%**
30 November 2023 (Settlement Date)	99.4%
31 March 2024	**97.8%**
1 April 2024 (Surrender Date)	79.8%
31 March 2025	**91.6%**

During the prospective periods presented, the One New Zealand lease at the Tuam Street Property was varied by the Surrender Agreement, impacting occupancy and rental income. Base passing rental associated with the Surrendered Area (excluding operating expenditure recoverable, lease incentives, and fixed rental growth adjustments) totals $1,443,000 (14.6% of forecast net rental income at Settlement Date, annualised). Specific leasing assumptions associated with the space are included in the notes below for the Tuam Street Property.

In addition, there are other existing lease agreements expiring without certainty of renewal at the date of this document representing net rental income (base passing rental, excluding operating expenditure recoverable, lease incentives, and fixed rental growth adjustments) totalling $865,000 (8.7% of forecast net rental income at Settlement Date, annualised). In general, these leases are expected to renew, or new leases signed in relation to the occupied space, near their respective expiry dates. While the Fund aims to lease up space before it falls vacant, the prospective periods do allow for levels of vacancy prior to leasing up some spaces. See further notes below for leasing assumptions at each property.

Net rental income by property in the prospective periods has been summarised in the following table, exclusive of recoverable operating expenses, incentives, fixed rental growth adjustments and accounting requirements for the Surrender Payment. The impact of incentives, fixed rental growth adjustments and accounting requirements for the Surrender Payment on rental income are separately disclosed below the table. Net rental income is only summarised up to the date of disposal where appropriate by property.

	2024	**2025**
Tuam Street Property – base rent	$3,853,000	$2,910,000
Tuam Street Property – Surrender Payment	$-	$3,100,000
Fanshawe Street Property	$3,524,000	$3,756,000
Main Highway Property	$1,789,000	$1,902,000
Victoria Street Property	$602,000	$633,000
127 Durham Street Property – now disposed	$80,000	$-
143 Durham Street Property – now disposed	$205,000	$-
Net Rental Income	**$10,053,000**	**$12,301,000**
Net impact of incentives and fixed rental growth adjustments	($102,000)	($232,000)
Impact of accounting adjustments for Surrender Payment	$279,000	($2,455,000)
Rental income per Statement of Comprehensive Income	**$10,230,000**	**$9,614,000**

Below is a summary of the key tenancies by building and the key assumptions that will impact revenue during the prospective financial periods ending 31 March 2025.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(c) Rental Income (continued):

i. **Tuam Street Property** - Net Rental Income for the year ending 31 March 2025 is forecast to be 48.9% of Net Rental Income of the Property Portfolio, including the Surrender Payment (25.2% of Rent from Investment Properties is attributed to the Surrender Payment). A sole tenant, One New Zealand, currently accounts for all rental income from lease of the property and is considered material. On the Surrender Date, the Surrendered Area is assumed to be vacant. It is then assumed 1,891 sqm (21% of the property's net lettable area) is leased from September 2024 to a single tenant. The remaining vacant space representing 1,860sqm (21% of the property net lettable area) is assumed to remain vacant to 31 March 2025.

ii. **Fanshawe Street Property** – Net Rental Income for the year ending 31 March 2025 is forecast to be 30.5% of Net Rental Income of the Property Portfolio. Seven tenants account for rental income from lease of the property, with Workday NZ and Grant Thornton considered material tenants to the Fund. Workday NZ is expected to generate net rental income of $1,165,000 in the year to 31 March 2025, with a lease expiry of December 2028. Grant Thornton is expected to generate net rental income of $858,000 in the year to 31 March 2025, with a lease expiry of September 2028. There is a forecast vacancy for five months from December 2023 of 346sqm, representing 5% of the property net lettable area.

iii. **Main Highway Property** – Net Rental Income for the year ending 31 March 2025 is forecast to be 15.5% of Net Rental Income of the Property Portfolio. Three tenants account for rental income from lease of the property, with the Ministry of Social Development (MSD) and Ministry of Justice (MoJ) considered material tenants to the Fund. MSD is expected to generate net rental income of $933,000 in the year to 31 March 2025, with a lease expiry of January 2026. The Ministry of Justice is expected to generate net rental income of $875,000 in the year to 31 March 2025, with a lease expiry of January 2033. Part of the property is occupied by the Electoral Commission and will be leased to the MoJ from January 2024. One month of vacancy is forecast between the expiry of the Electoral Commission's lease in December 2023, and commencement of the Ministry of Justice's new lease.

iv. **Victoria Street Property** - Net Rental Income for the year ending 31 March 2025 is forecast to be 5.1% of Net Rental Income of the Property Portfolio. Seven tenants account for rental income from lease of the property, with no tenant in isolation being considered material to the Fund. There is a current vacancy of 143sqm, representing 7% of the property's net lettable area. This is assumed to be leased in June 2024. A further tenancy of 234sqm, representing 12% of the property's net lettable area, is assumed to fall vacant for the three months from April 2024.

(d) Distributions: For the prospective period to 30 November 2023, regular distributions of 5.75 cents per unit annualised are forecast. For the prospective period from 1 December 2023 to 31 March 2025, regular distributions of 5.85 cents per unit annualised are forecast (with new unitholders allotted units on 30 November 2023 eligible for distributions for the period from 1 December 2023). All gross distributions are calculated as cents per unit per annum. The Fund's policy is to declare distributions on the last day of the month, with payment on the 25th of the month following (or the next working day if a weekend or public holiday). In addition to the above, a special distribution equal to 0.90 cents per unit is forecast to be declared on 30 April 2024, related to the timing of taxable income expected as a result of the Surrender Payment.

The regular distributions from April 2024, plus the special distribution, include distribution of the Surrender Payment to investors. The distribution of the Surrender Payment is forecast to occur over a shorter time frame than the prospective recognition of Rental Income for accounting purposes as noted in assumption (b) earlier in this section.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(e) **Receipts from tenants and payments to suppliers:** It has been assumed that virtually all tenants pay their monthly rent and operating expenses in the month of invoicing. The Fund has been assumed to pay most expenses in the month following invoicing.

(f) **Cash and Cash Equivalents, and Borrowings**: It is assumed that the Fund places $3,000,000 on 30-day term deposit in August 2023 and December 2023, and a further amount of $2,200,000 on 30-day term deposit in April 2024. Funds on term deposit are assumed to be reinvested and remain on term deposit until the Fund's working capital and capital expenditure requirements require their use, prior to additional borrowings being drawn. It is assumed that 30-day term deposits earn interest at 5.30% per annum throughout the prospective financial periods, and no funds are held on term deposit beyond August 2024.

Total bank borrowings drawn over time will depend on the total equity the Fund raises though the Offer, how much debt is repaid because of the Offer, and what subsequent drawdowns the Fund may make on bank borrowings to fund capital expenditure, working capital and any subsequent opportunities to purchase further property investments that may arise (amongst other factors). The Fund currently has funding facility limits with ASB Bank totalling $42,698,000 as at the date of this PDS.

Assuming the Fund issues 10,530,000 units through the Offer, and $6,200,000 of the Offer proceeds are used to repay bank borrowings, the total borrowings drawn at Settlement Date will be $34,377,000 (30.2% of the latest independent valuation reports held in relation to each property in the Property Portfolio). Bank borrowings are forecast to remain unchanged from Settlement Date to 31 March 2024, and subsequently increase in the year ending 31 March 2025 to $36,727,000 (32.2% of the latest independent valuation reports held in relation to each property in the Property Portfolio, respectively).

Additional equity may be accepted above the forecast equity raise amount, which could lead to the Fund's borrowings reducing further. The Fund may also seek to increase its bank borrowings in the future to support future property investments or capital expenditure requirements, in addition to utilising any surplus cash.

The expected funding facilities over time are summarised below:

Facility	Facility Type	Facility Expiry	Prospective borrowing			
			1 Apr 2023	30 Nov 2023	31 Mar 2024	31 Mar 2025
CM04	Term Loan	June 2024	$3,700,000	$-	$-	$-
CM06	Term Loan	October 2025	$51,032,000	$34,377,000	$34,377,000	$34,377,000
CMNEW	TBC	TBC	N/A	N/A	N/A	$2,350,000
Total			**$54,372,000**	**$34,377,000**	**$34,377,000**	**$36,727,000**

Facility limits in April 2023 were $56,373,000 and reduced to $42,698,000 in July 2023 following divestment of the Durham Street Properties. It is assumed that at Settlement Date, following achievement of the Target Equity Raise, the Fund will terminate facility CM04, and reduce the Facility Limit on facility CM06 to $34,377,000. It is assumed facility CM06 will be extended by a period of at least 12 months, before October 2024. Based on funding requirements over time, an additional facility (CMNEW) may require establishment by September 2024, with a facility limit growing to $2,350,000 by 31 March 2025. No further facilities are being sought but may be sought subsequently by the Fund in the ordinary course of business if desired or required.

All term loan facilities are extendible facilities, with the ability to extend the term by one year, every year, subject to annual lender review and confirmation. There is an expectation that the CM06 facility will be extended regularly, and as such remain as non-current borrowings for the foreseeable future.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(f) Cash and Cash Equivalents, and Borrowings (continued)

The following has been assumed in relation to the funding facilities:

i. No principal repayments are required during the term of the funding facilities.

ii. No recourse to investors; and

iii. Capital expenditure will be funded by the funding facilities to the extent that free cash flows, or cash flows from capital raising activities, are not available to fund such expenditure.

The funding facilities are secured by first registered mortgage over the Property Portfolio and a general security agreement over all present and future acquired assets of the Fund.

(g) Bank interest and other bank fees: The interest rates associated with the Fund's borrowing facilities are primarily structured on a floating BKBM plus a bank margin for the duration of the facility. To hedge the risk on the floating nature of the interest rate, the Fund enters interest rate swap agreements. As at the date of the PDS, the Fund has entered swaps with a notional value of $25,000,000. The swap agreements mature between April 2024 and March 2026.

The Fund currently intends to enter into further swap agreements to fix the interest rate for 70% of the Fund's borrowings over time (with the current expectation that this may vary between 60% and 85% of the Fund's borrowings at a point in time). Coverage of bank borrowings by swap agreements at Settlement Date after debt repayments is expected to be 73% of total borrowings drawn, changing over time as swaps expire and swaps are placed, to 65% by 31 March 2025.

It is projected that the weighted average interest rate charged on all bank borrowings, including the effect of interest rate swap arrangements, will be 5.76% per annum for the year ending 31 March 2024, and 7.44% per annum for the year ending 31 March 2025. Interest rates are inherently subject to regular fluctuation, and at a point in time may vary.

Other costs may be incurred in relation to bank borrowings, such as one-off fees associated with the establishment of new funding facilities. No such costs have been assumed in the Prospective Financial Statements, beyond minor administrative bank charges.

(h) Manager's Fees: The Manager expects to charge fees, including but not limited to property and fund management fees, and property transaction fees, in accordance with accounting policy (f).

The Manager's property and fund management fees expected in the prospective financial periods are as follows:

	2024	**2025**
Property Management Fees	$240,000	$271,000
Fund Management Fees	$618,000	$570,000
Total Property and Fund Management Fees	**$858,000**	**$841,000**

The Manager's property transaction fees expected in the prospective financial periods are as follows:

	2024	**2025**
Disposal Fees	$168,000	-
Property Project Fees	$222,000	$61,000
Total Property Transaction Fees	**$390,000**	**$61,000**

No property acquisition fees are forecast for the prospective periods presented.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(h) Manager's Fees (continued):

Disposal fees are accounted for within capital expenditure and the realised gain or loss on disposal of property. The disposal fees in the year ending 31 March 2024 relate to the disposals of the 127 Durham Street Property and 143 Durham Street Property on 31 July 2023.

Any fees charged by the Manager related directly to capital raising (and not a property transaction) are included in the Statement of Changes in Equity within Unit Issue Transaction Costs.

In the prospective periods, the Manager has not projected the charging of a performance fee as the forecast performance does not exceed the Fund's performance benchmark.

(i) Supervisor's fees: The prospective financial periods include the following fees that the Supervisor is entitled to:

i. An annual base fee, as agreed between the Manager and Supervisor, based on the NAV of the Fund. The fee is presumed to be the maximum amount chargeable per the Fund's Establishment Deed, being 6 basis points (0.06%) of the NAV of the Fund per annum.

ii. Special fees, in amounts agreed with the Manager, for any services provided by the Supervisor of an unusual or onerous nature outside of the Supervisor's regular services.

(j) Investment Properties

Valuation - The valuation of investment properties includes the following information derived from independent valuation reports:

Property	Valuation Date	Valuation
Tuam Street Property	30 September 2023	$52,000,000
Fanshawe Street Property	30 September 2023	$31,000,000
Main Highway Property	22 September 2023	$24,300,000
Victoria Street Property	22 September 2023	$6,700,000
		$114,000,000

The valuation reports for all properties consider a range of inputs and market evidence in forming an opinion on value. As a result of the potential impact of current economic conditions, values may change more rapidly than usual and there may be a greater range around the assumption of market value than would normally be the case. Caution should be used when relying on past valuations at a later date.

For existing properties, it is assumed that their fair value on 30 September 2023 is equal to that of the latest independent valuation received, as noted above. Future values during the prospective financial periods presented are deemed to be this value, plus capital expenditure forecast for each property in the remaining period to 31 March 2025 (including any capitalised Property Project Fees).

It has been assumed there will be no revaluation gains or losses in the fair value of the Property Portfolio, beyond those generated by the valuations and approach described above. Future gains or losses beyond this date cannot be reliably predicted.

Transactions - The 127 Durham Street Property and 143 Durham Street Property were disposed of on 31 July 2023 for $5,000,000 less costs and $11,750,000 less costs, respectively. This transaction has been completed. No property acquisitions have been presumed.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(j) Investment Properties (continued)

Capital expenditure **-** Budgeted capital expenditure (excluding any property transaction fees charged by the Manager and any costs associated with the disposal of 127 Durham Street Property and 143 Durham Street Property) is forecast as $4,466,000 and $1,591,000 for the years ending 31 March 2024 and 31 March 2025 respectively. Including property transaction fees per assumption 2(h), total expenditure is $4,856,000 and $1,652,000 respectively.

The Fund's budgeted capital expenditure in the prospective financial periods is based on:

i. estimates prepared by the Manager based on the Manager's historical experience in carrying out works of a similar nature;

ii. a level of contingency or general allowance based on what the Manager considers to be reasonable for projects or properties of a similar nature;

iii. in the case of tenancy fitouts, the Manager's best estimate, based on its experience, of the likely cost. Capital expenditure requirements for tenancy fitouts are dependent on the individual lease agreements of future tenants and are therefore difficult to predict in advance. However, it should be noted that fixed price contracts are agreed upon prior to the commencement of capital projects where possible and that where the cost of fit out is greater than what is contractually agreed, this will likely be reflected in increased rental income from the tenant.

Material capital expenditure projects included in the forecast capital expenditure to 31 March 2025 account for approximately 55% of total capital expenditure forecast, being:

- $1,350,000 for new entrance doors and lobby upgrades at the Tuam Street Property;
- $500,000 for works at the Tuam Street Property to enable the building to be multi-tenanted;
- $892,000 for tenancy split, base-build, and fitout works at the Fanshawe Street Property: and
- $600,000 for façade works at the Main Highway Property.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(j) **Investment Properties (continued):** A summary of the movement in the carrying value of investment properties is summarised below.

	Carrying value	Adjustments	Valuation	Capital expenditure including Property Transaction Fees	Fair value movement	Adjustments movement	Disposals		Valuation	Adjustments	Carrying value
	31 March 2023			Movement during year			Proceeds	Gain on Disposal	31 March 2024		
Tuam Street Property	$55,763,000	($63,000)	$55,700,000	$1,698,000	($3,905,000)	$109,000	–	–	$53,602,000	($46,000)	$53,556,000
Fanshawe Street Property	$30,561,000	$480,000	$31,041,000	$1,610,000	($327,000)	($21,000)	–	–	$32,303,000	($459,000)	$31,844,000
Main Highway Property	$27,204,000	$96,000	$27,300,000	$1,068,000	($3,054,000)	($11,000)	–	–	$25,303,000	($85,000)	$25,218,000
Victoria Street Property	$7,608,000	$42,000	$7,650,000	$303,000	($1,104,000)	($28,000)	–	–	$6,821,000	($14,000)	$6,807,000
127 Durham Street Property	$4,591,000	$9,000	$4,600,000	$53,000	–	($3,000)	($5,000,000)	$350,000	–	–	–
143 Durham Street Property	$11,099,000	$51,000	$11,150,000	$124,000	–	($5,000)	($11,750,000)	$481,000	–	–	–
Total – Investment Properties (excl. ROU Assets)	**$136,826,000**	**$615,000**	**$137,441,000**	**$4,856,000**	**($8,390,000)**	**$41,000**	**($16,750,000)**	**$831,000**	**$118,029,000**	**($604,000)**	**$117,425,000**
Fanshawe Street Right of Use Asset	$15,401,000	–	$15,401,000	–	($1,901,000)	–	–	–	$13,500,000	–	$13,500,000
Tuam Street Right of Use Asset	$4,600,000	–	$4,600,000	–	$350,000	–	–	–	$4,950,000	–	$4,950,000
Total – ROU Assets	**$20,001,000**	**–**	**$20,001,000**	**–**	**($1,551,000)**	**–**	**–**	**–**	**$18,450,000**	**–**	**$18,450,000**
Total – Investment Properties	**$156,827,000**	**$615,000**	**$157,442,000**	**$4,856,000**	**($9,941,000)**	**$41,000**	**($16,750,000)**	**$831,000**	**$136,479,000**	**($604,000)**	**$135,875,000**

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

(j) Investment Properties (continued):

	Carrying value	Adjustments	Valuation	Capital expenditure including Property Transaction Fees	Fair value movement	Adjustments movement	Disposals		Valuation	Adjustments	Carrying value
	31 March 2024			Movement during year			Disposal Proceeds	Gain on Disposal	31 March 2025		
Tuam Street Property	$53,556,000	$46,000	$53,602,000	$774,000	–	–	–	–	$54,376,000	($46,000)	$54,330,000
Fanshawe Street Property	$31,844,000	$459,000	$32,303,000	$498,000	–	–	–	–	$32,801,000	($459,000)	$32,342,000
Main Highway Property	$25,218,000	$85,000	$25,303,000	$188,000	–	–	–	–	$25,491,000	($85,000)	$25,406,000
Victoria Street Property	$6,807,000	$14,000	$6,821,000	$192,000	–	–	–	–	$7,013,000	($14,000)	$6,999,000
Total – Investment Property excluding ROU Assets	**$117,425,000**	**$604,000**	**$118,029,000**	**$1,652,000**	**–**	**–**	**–**	**–**	**$119,681,000**	**($604,000)**	**$119,077,000**
Fanshawe Street Right of Use Asset	$13,500,000	–	$13,500,000	–	–	–	–	–	$13,500,000	–	$13,500,000
Tuam Street Right of Use Asset	$4,950,000	–	$4,950,000	–	–	–	–	–	$4,950,000	–	$4,950,000
Total – ROU Assets	**$18,450,000**	**–**	**$18,450,000**	**–**	**–**	**–**	**–**	**–**	**$18,450,000**	**–**	**$18,450,000**
Total – Investment Property	**$135,875,000**	**$604,000**	**136,479,000**	**$1,652,000**	**–**	**–**	**–**	**–**	**$138,131,000**	**($604,000)**	**$137,527,000**

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

2. Assumptions (continued)

(k) **Derivatives:** Derivative financial instruments have been assumed to be fair valued on 31 August 2023 based on actual information known at that date. Future values during the prospective financial periods presented are deemed to be this value. It has been assumed there will be no revaluation gains or losses in the fair value of the derivative financial instruments beyond 31 August 2023 as future gains or losses beyond this date cannot be reliably predicted.

As derivative financial instruments move closer to maturity, it has been assumed any potential future movement in their value driven solely by the passage of time has been offset by the impact of further swaps being placed.

(l) **Regulatory Environment:** The Prospective Financial Statements have been prepared on the assumptions that there will be no material changes in the economic, legal, or regulatory environment, including with respect to taxation.

(m) **Contribution Fee and Underwriting Fee:** The Fund is assumed to be charged a contribution fee equating to 2.00% of the total equity raised by the Fund. The Manager pays away some or all of this amount to the Manager's sales team and third-party referring agents.

The Fund is also assumed to be charged an underwriting fee equating to 4.00% of the value of units underwritten in the Offer by the Manager. Parties related to the Fund may enter sub-underwriting arrangements with the Manager in relation to offers in the Fund. Related to the Offer, the Manager currently expects to enter sub-underwriting arrangements with PMG Capital Fund Limited (**PMG Capital**).

For the Offer, it has been presumed the Manager charges the Fund a contribution fee of $200,000 plus GST and an underwriting fee of $237,500 plus GST on or around 30 November 2023 (based on 10,530,000 units being issued from the Offer, and 6,250,000 units underwritten).

(n) **Related party transactions:** The Fund's related parties include the Manager and members of key management personnel of the Manager, its parent company, PMG Holdings Limited (**Holdings**). The Fund is further related to PMG Capital as Scott McKenzie is a director of both PMG Capital and the Manager.

The Manager is entitled to recover fees and expenses from the Fund as noted in this document, including a contribution fee as noted in assumption (m) above.

The key management personnel of the Manager may invest in the Fund on the same basis, terms, and conditions as any other investor, from which they will be entitled to distributions.

Forsite Limited provides software services to the Fund, and is a related party, as Wayne Beilby and Scott McKenzie are directors of both Forsite Limited and the Manager. The cost for the prospective periods is forecast to be $8,000 plus GST and $7,000 plus GST for the years ending 31 March 2024 and 31 March 2025, respectively.

All the above transactions are considered to be arm's length transactions on normal commercial terms.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

3. Sensitivity analysis

Prospective Financial Statements are 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 the Prospective Statement of Comprehensive Income are detailed overleaf. Any cents per unit assessment is based on the closing number of units on issue during the relevant period, in the relevant scenario.

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 this information. The approach taken in respect of the sensitivities has been to determine those variables most likely to significantly affect results in years ending 31 March 2024 and 2025, using the Manager's judgement. Each movement in an assumption is calculated and presented in isolation from movements in other assumptions (except where borrowings would be required to provide the Fund with a positive cash balance), 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. Furthermore, the sensitivity analysis does not consider any potential mitigating actions that the Manager of the Fund may take from time to time.

Rental income risk: Rental income risk is in the normal course of the Fund's business. The sensitivity result overleaf is based on an increase/decrease of 10% in monthly net rental income (passing rent before incentives and excluding the Surrender Payment) from September 2023. This could occur due to variation in vacancy and vacancy periods, tenant defaults, or lease terms from that forecast. A reduction in rental income could also occur due to inability to access property. Should such events occur, the amount, duration, and timing of any rental variation is likely to differ from the hypothetical sensitivity estimate and may impact rental income by an amount above or below a 10% change in monthly net rental income.

Tuam Street leasing risk: Income associated with the Surrendered Area at the Tuam Street Property is due to cease on 31 March 2024, with the leasing of approximately 50% of the Surrendered Area assumed to occur in September 2024. The sensitivity result overleaf shows the impact of leasing activity at the property, should all of the Surrendered Area be leased at market rates by 31 March 2024, or should no leasing activity occur in relation to the Surrendered Area to 31 March 2025.

Interest rate risk: Exposure to interest rate risk is in the normal course of the Fund's business. The sensitivity results are based on a 100-basis point shift (bps) (1.0% rate movement) in the Floating Base Rate and rate of new interest rate swaps above or below the rate assumed from 1 September 2023. No change in the fair value of interest rate swaps has been accounted for in the sensitivity.

Capital expenditure risk: Total capital expenditure is subject to variation in both timing and value and is a material cost to the Fund with an inherent risk of being incurred above or below the amounts projected. The sensitivity results overleaf are based on an increase/(decrease) of $1,900,000 in required capital expenditure over the period from 1 September 2023 to 31 March 2025, that are not recoverable from other parties ($100,000 per month).

Valuation risk: Investment Property is valued at fair value. Fluctuations in value will directly impact the Fund's performance. The value of investment property is sensitive to changes in various assumptions over a period, including future tenancy risk, the discount rate applied, and projected operational and capital expenditure. The value of investment property will also impact the fund management fee charge, which is based on the value of investment property managed, and the performance fee payable. The sensitivity adjustments are based on increasing / (decreasing) fair value by 10% of the assumed fair value as of 31 March 2024 (with no further changes).

Offer funding risk: Units issued and funding available is influenced by the success of the Offer. Should the total number of units issued under the Offer differ from 10,530,000 units, a different level of cash on hand or level of borrowings would be generated causing a change in the weighted average interest rate of the Fund. The sensitivity results to offer funding overleaf presumes the Maximum Equity Raise is achieved, or the Minimum Equity Raise is achieved. The scenarios presume no further new Property Investments are acquired; however it does include the impact on borrowings.

PMG Direct Office Fund
Supplementary Information for PDS dated on or around 3 November 2023
Prospective Financial Information for SCH10921 and OFR13655

Sensitivity item	Positive / (Negative) change	Measure impacted	Positive Outcome		Negative Outcome	
			FY2024	FY2025	FY2024	FY2025
Rental Income (passing rent before incentives and Surrender Payment)	10% / (10%) across 19 months	Rental Income from Investment Properties	574,000	920,000	(574,000)	(920,000)
		Property and Fund Management Fees	12,000	20,000	(12,000)	(20,000)
		Interest Expense	–	–	–	46,000
		Net Profit	***562,000***	***900,000***	***(562,000)***	***(946,000)***
		Cash and Cash Equivalents	576,000	1,476,000	(326,000)	(772,000)
		Borrowings	–	–	250,000	750,000
		Trade and Other Payables	14,000	14,000	(14,000)	(14,000)
		Change in Net Profit per unit on issue at year end	***0.63 cpu***	***1.02 cpu***	***(0.63 cpu)***	***(1.07 cpu)***
Tuam Street Leasing	100% of Surrendered Area leased at 31 March 2024 / no leasing activity by 31 March 2025	Rent from Investment Properties	–	1,652,000	–	(430,000)
		Operating Expense Recoveries	–	264,000	–	(114,000)
		Property and Fund Management Fees	–	21,000	–	(3,000)
		Net Profit	–	**1,895,000**	–	**(541,000)**
		Cash and Cash Equivalents	–	883,000	–	32,000
		Trade and Other Receivables	–	18,000	–	(19,000)
		Lease adjustments	–	1,007,000	–	(558,000)
		Trade and Other Payables	–	14,000	–	(4,000)
		Change in Net Profit per unit on issue at year end	***0.00 cpu***	***2.14 cpu***	***0.00 cpu***	***(0.61 cpu)***
Interest Rate	OCR and new swap rates (100bps)/100bps adjustment to forecast across 19 months	Interest Expense	(71,000)	(286,000)	71,000	286,000
		Net Profit	***71,000***	***286,000***	***(71,000)***	***(286,000)***
		Cash and Cash Equivalents	71,000	357,000	(71,000)	(357,000)
		Change in Net Profit per unit	***0.08 cpu***	***0.32 cpu***	***(0.08 cpu)***	***(0.32 cpu)***
Capital Expenditure	($1,900,000)/$1,900,000 across 19 months $100,000 per month	Interest Expense	–	–	–	44,000
		Net Profit	–	–	–	***(44,000)***
		Cash and Cash Equivalents	608,000	1,824,000	(527,000)	(641,000)
		Investment Property	(712,000)	(1,925,000)	623,000	1,903,000
		Borrowings	–	–	–	1,200,000
		Trade and Other Payables	(104,000)	(101,000)	105,000	106,000
		Change in Net Profit per unit on issue at year end	***0.00 cpu***	***0.00 cpu***	***0.00 cpu***	***0.05 cpu***

Sensitivity item	Positive / (Negative) change	Measure impacted	Positive Outcome		Negative Outcome	
			FY2024	FY2025	FY2024	FY2025
Property Valuation	10% / (10%) at 31 March 2024	Property and Fund Management Fees	–	57,000	–	(57,000)
		Supervisor Fees	–	7,000	–	(7,000)
		Other Expenses	–	11,000	–	(11,000)
		Unrealised gain/(loss) in value of investment property	11,400,000	–	(11,400,000)	–
		Net Profit	***11,400,000***	***75,000***	***(11,400,000)***	***(75,000)***
		Cash and Cash Equivalents	–	(66,000)	–	66,000
		Investment Property	11,400,000	11,400,000	(11,400,000)	(11,400,000)
		Trade and Other Payables	–	9,000	–	(9,000)
		Change in Net Profit per unit on issue at year end	***12.88 cpu***	***(0.08 cpu)***	***(12.88 cpu)***	***0.08 cpu***
Offer Funding	Maximum Equity Raise / (Minimum Equity Raise) at Settlement Date	Supervisor Fees	2,000	5,000	(1,000)	(2,000)
		Other Expenses	3,000	9,000	(1,000)	(4 000)
		Interest Expense	–	–	96,000	293,000
		Net Profit	***5,000***	***14,000***	***94,000***	***287,000***
		Cash and Cash Equivalents	9,591,000	8,869,000	(516,000)	(264,000)
		Borrowings	–	–	3,500,000	3,750,000
		Trade and Other Payables	1,000	1,000	(1,000)	(1,000)
		Distribution Payable	51,000	51,000	(21,000)	(21,000)
		Share capital net of transaction costs (cumulative)	***9,748,000***	***9,748,000***	***(3,985,000)***	***(3,985,000)***
		Distributions Declared (cumulative)	***204,000***	***911,000***	***(83,000)***	***(372,000)***
		Change in Net Profit per unit on issue at year end	***0.01 cpu***	***0.02 cpu***	***0.11 cpu***	***0.34 cpu***