


PROSPECTIVE FINANCIAL STATEMENTS

Basis of Preparation

The Prospective Financial Information (PFI) comprises the Prospective Financial Statements and other PFI related information for the 7 months ended 31 March 2020 and the 12 months ended 31 March 2021.

The final prospective financial statements of Phoenix Drive Property Investments Limited have been prepared in compliance with FRS-42 “Prospective Financial Statements” and NZ GAAP as they apply to prospective financial statements and have been subject to an assurance engagement by Baker Tilly Staples Rodway Audit Limited (whose report can be found on the Disclose Register). These should be read in conjunction with the notes on pages 4-10. The accounting policies used in the prospective financial statements reflect the policies expected to be adopted in the actual annual financial statements.

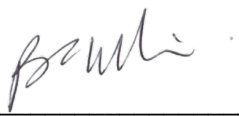
If you do not understand this financial information, you can seek advice from a financial advisor or an accountant.



Director

20 August 2019

Date



Director

20 August 2019

Date

| Phoenix Drive Property Investments Limited Prospective Statement of Comprehensive Income For the period ended 31 March | 2020 | 2021 |
|--|----------------|----------------|
| | 7 Months | 12 Months |
| | \$ | \$ |
| Revenue | | |
| Rental Income | 460,191 | 788,904 |
| Operating Expenses Recovered | 21,138 | 42,513 |
| Total Revenue | 481,329 | 831,417 |
| Accountancy | 3,437 | 10,521 |
| Audit Fee | 9,404 | 9,734 |
| Bank Fees | 154 | 600 |
| Operating Expenses | 28,657 | 48,513 |
| Property Management Fees | 9,204 | 15,778 |
| Property Syndication Fees | 3,066 | 5,361 |
| Valuation Fee | 4,326 | 4,456 |
| Total Expenses | 58,249 | 94,963 |
| Profit before Interest | 423,080 | 736,454 |
| Finance Costs | 72,825 | 124,794 |
| Net Operating Profit | 350,255 | 611,661 |
| Less Movement in Value of Investment Property | (210,000) | (9,000) |
| Total Comprehensive Income for the period attributable to shareholders | 140,255 | 602,661 |

| Phoenix Drive Property Investments Limited Prospective Statement of Changes in Equity For the period ended 31 March | Equity \$ | Retained Earnings \$ | Total \$ |
|---|------------------|----------------------------|------------------|
| Equity as at 1 April 2020 | 8,915,465 | (140,475) | 8,774,992 |
| Total Comprehensive Earnings | | 602,661 | 602,661 |
| Dividends Paid | | (481,250) | (481,250) |
| Equity as at 31 March 2021 | 8,915,465 | (19,064) | 8,896,402 |
| Equity as at 1 September 2019 | - | - | - |
| Contribution of equity from Proportionate Ownership Scheme | 8,963,581 | | 8,963,581 |
| Share Issue Costs | (48,116) | | (48,116) |
| Total Comprehensive Earnings | | 140,255 | 140,255 |
| Dividends Paid | | (280,729) | (280,729) |
| Equity as at 31 March 2020 | 8,915,465 | (140,475) | 8,774,992 |

| Phoenix Drive Property Investments Limited | 2020 | 2021 |
|--|------------------|------------------|
| Prospective Statement of Cash Flows | 7 months | 12 Months |
| For the period ended 31 March | \$ | \$ |
| Cash Flows from Operating Activities | | |
| Cash provided from: | | |
| Rental Receipts | 460,191 | 788,904 |
| Operating Expenses Recovered | 21,138 | 42,513 |
| Net GST Paid | 8,283 | 241 |
| Total Cash Received | 489,613 | 831,658 |
| Cash was applied to: | | |
| Interest Paid | 72,825 | 124,794 |
| Accounting Fees | 3,437 | 10,521 |
| Bank Fees | 154 | 600 |
| Audit Fee | 8,350 | 10,815 |
| Operating Expenses | 28,657 | 48,513 |
| Properties Management Fees | 9,204 | 15,778 |
| Property Syndication Fees | 3,066 | 5,361 |
| Valuation Fees | - | 4,326 |
| Total Cash Disbursed | 125,693 | 220,708 |
| Net Cash Inflow from Operating Activities | 363,920 | 610,950 |
| Cash Flows from Investing Activities | | |
| Cash provided from: | | |
| Sale of Land | 233,000 | - |
| Cash was applied to: | | |
| Legal Fees on sale of land | (10,865) | |
| Capital Expenditure on Building | (210,000) | (9,000) |
| Total Cash Disbursed | (220,865) | (9,000) |
| Net Cash Inflow/(Outflow) from Investing Activities | 12,135 | (9,000) |
| Cash Flows from Financing Activities | | |
| Cash was applied to: | | |
| Issue costs paid | (21,443) | - |
| Dividends paid | (280,729) | (481,250) |
| Total Cash Disbursed | (302,173) | (481,250) |
| Cash (Outflow) to Financing Activities | (302,173) | (481,250) |
| Net Increase/(Decrease) in Cash Held | 73,882 | 120,700 |
| Net cash transferred from proportionate Ownership Schemes | 180,335 | - |
| Cash and Cash Equivalents at Start of Period | - | 254,217 |
| Cash and Cash Equivalents at End of Period | 254,217 | 374,917 |

| Phoenix Drive Property Investments Limited Prospective Statement of Financial Position as at 31 March | 2020 \$ | 2021 \$ |
|--|--------------------|--------------------|
| Current Assets | | |
| Cash at Bank | 254,217 | 374,916 |
| Non-Current Assets | | |
| Investment Property | 11,950,000 | 11,950,000 |
| Total Assets | 12,204,217 | 12,324,916 |
| Current Liabilities | | |
| Trade and Other Payables | 92,475 | 91,764 |
| Term Liabilities | | |
| Borrowings | 3,336,750 | 3,336,750 |
| Total Liabilities | 3,429,225 | 3,428,514 |
| Net Assets | 8,774,992 | 8,896,402 |
| Represented by : | | |
| Shareholders' Equity and Retained Earnings | 8,774,992 | 8,896,402 |

Notes and Assumptions for the periods ending 31 March 2020 and 2021

Basis of Preparation

The purpose of the prospective financial statements is to assist current subscribers in the non-compliant Phoenix Drive Proportionate Ownership Scheme to assess the viability of subscribing for shares in the replacement equity investment entity, Phoenix Drive Property Investments Limited, the 'issuer'. The Product Disclosure Statement ('PDS') and the prospective financial information contained in it may not be appropriate for any other purpose.

The company is incorporated and domiciled in New Zealand.

The company will be a commercial property investor that owns land and buildings on Cnr State Highway 30 and 4 Phoenix Drive, Whakatane. The registered office of the Manager is situated at B4, 17 Corinthian Drive, Albany, Auckland.

The prospective financial statements were authorised for issue on 20 August 2019, being the date of the Product Disclosure Statement. The Manager is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. The prospective financial statements will not be updated subsequent to initial presentation.

Assumptions

1 Scheme Wind up and Settlement

Phoenix Drive Property Investments Limited intends to convert from the non-compliant Proportionate Ownership Scheme to Phoenix Drive Property Investments Limited from not later than 31 August 2019. The prospective financial information for Phoenix Drive Property Investments Limited has been prepared for the periods ended 31 March 2020 and 2021. The first accounting period for which prospective financial statements have been recorded is for the 7 month period from 1 September 2019 to 31 March 2020.

2 Transfer of business from former Scheme to Phoenix Drive Property Investments Limited

Phoenix Drive Property Investments Limited is the current registered proprietor of the commercial property located on Cnr State Highway 30 and 4 Phoenix Drive, Whakatane ("Property") which it holds as nominee and bare trustee on behalf of investors ("Investors") in a proportionate ownership scheme ("Scheme"). If this Offer is successful the Scheme will be wound up and Investors will instead receive Share Parcels in Phoenix Drive Property Investments Limited as is equal to the number of Proportionate Interests held by them in the Scheme. The winding up will take place with effect from 31 August 2019, or such later date as the Board may determine ("Operative Date"). The Property has 8,040.78 m² of net lettable area situated within The Hub bulk goods retail centre located on State Highway 30, Whakatane. The building on the Property was constructed in 2006 and comprises a single level building with adjoining

timber trade area and nursery. The building was specifically designed and built for the Tenant and includes 265 car parks. Staff amenities and offices are located on mezzanine levels within the main building. The building and carpark (which the Tenant is entitled to use but does not lease) are accessed directly from Phoenix Drive. Bunnings Limited is the sole tenant and therefore contributes 100% of the building's net income.

Phoenix Drive Proportionate Ownership Scheme was required by section 127 of the Financial Market Conduct Act (the Act) to register as a licensed manager. This was not done by the required date. The purpose of this PFI is to complete the transition of Phoenix Drive Proportionate Ownership Scheme to a compliant equity investment entity (in line with the provisions of the Act).

The prospective schedule of assets and liabilities held by the former Scheme as at 31 August 2019 is recorded below. The business which comprises the assets and liabilities will be transferred to Phoenix Drive Property Investments Limited on 31 August 2019.

| | |
|---|---------------------|
| Assets | |
| Cash | 180,336 |
| Accounts Receivable | 70,251 |
| Property (as per valuation, 31 August 2019) | 12,150,000 |
| Total Assets | \$12,400,587 |
| Liabilities | |
| Accounts Payable | 100,256 |
| BNZ Loan | 3,336,750 |
| Total Liabilities | \$3,437,006 |
| Net Assets | \$8,963,581 |

It is not intended that the Prospective Financial Information will be amended subsequent to registration of the PDS.

3 Property Valuation

The valuation of the property as at 31 August 2019 was undertaken by Jones Lang Lasalle, a registered valuation firm and the report specifies a market value of \$11,950,000 for financial reporting purposes, following the sale of the land in October 2019 for \$233,000 less expected legal fees of \$33,000. Therefore, the net proceeds are expected to be \$200,000. Below is a reconciliation of the investment property balance.

| | 2020 | 2021 |
|--|---------------------|---------------------|
| Opening Value (Fair value of property acquired from Walton Plaza Proportionate Ownership Scheme) | 12,150,000 | 11,950,000 |
| Less: Net value of land disposed (expected October 2019) | (200,000) | - |
| Plus: Additions during the year (refer note 17) | 210,000 | 9,000 |
| Less: Movement in value of Investment Property | (210,000) | (9,000) |
| Closing value at 31 March | \$11,950,000 | \$11,950,000 |

The prospective financial statements assume no increase in fair value of the property over the forecast period.

This valuation has been prepared with consideration of results of a discounted cash flow valuation approach, a capitalisation valuation approach and a cost approach reconciled with the 'direct comparison' approach on a rate per square metre of gross lettable area basis combining available market evidence and present market conditions. The valuation assumptions used in the capitalisation approach include a net market rental income of \$801,796. Core income has been capitalised at 6.5% as a prime measure of valuing the property.

The valuation has been prepared on the assumption that the lease with Bunnings Limited will expire in 6.83 years and does not take into account any of the three right of renewals of eight years each available to the Tenant.

4 **Rental Receipts**

Rental receipts are expected to be in accordance with the lease agreement including rent reviews. No loss provision has been made, on the basis of the financial strength of the Tenant.

5 **Dividends**

Dividends paid have been calculated at a 11% annual return on investor funds held in line with the PDS. Cumulative cash will be retained for each of the 2 periods, being \$254,217 and \$374,917 respectively.

6 **Acquisition and Share Issue Costs**

Phoenix Drive Property Investments Limited will be responsible for paying all costs of the Acquisition and Share Issue Costs, as detailed in the table below:

| Cost | \$ |
|-------------------------|---------------|
| Bank Legal Costs | 3,500 |
| Accounting Review Costs | 8,450 |
| Legal Costs – PDS | 36,166 |
| Total Costs | <u>48,116</u> |

Costs have been based on quotes and actual payments made by the legacy Scheme on behalf of Phoenix Drive Property Investments Limited.

7 **Taxation**

The Issuer plans to register as a PIE and therefore, the Issuer itself will not be subject to tax. Instead, the Issuer will attribute income to the investor and, where applicable, deduct tax at the individual investor's prescribed investor rate ("PIR") before it is paid to the investor. The Issuer will pay the tax deducted to the Inland Revenue.

8 **Cash at Bank**

The cash at bank will be retained as a contingency for future:

- Rises in interest rates
- Lease vacancies
- Building maintenance
- Capital expenditure (as outlined in Note 17)
- Tenancy considerations

9 **Interest**

The interest rate on the Bank borrowings has been assumed to be at a floating rate, based on the 90 day bill rate (BKBM) and a fixed margin. The average BKBM rate used, is as follows:

| Financial Year | BKBM | Margin | Total |
|-----------------------|-------------|---------------|--------------|
| 2020 | 1.44% | 2.30% | 3.74% |
| 2021 | 1.44% | 2.30% | 3.74% |

The interest expense and cash flow are based on

- no principal repayments during the term of the loan
- no recourse to Investors

10 Borrowings

The level of bank borrowings will be \$3,336,750, being 27.92% of the valuation of the property of \$11,950,000 following the sale of the land in October 2019 (refer Note 3). It is expected that Phoenix Drive Property Investments Limited will take over the loan from the legacy scheme as from 31 August 2019.

The Interest Rate Cover and Gearing (Loan to Value) Ratio are non-GAAP information.

| | 31/3/2020 | 31/3/2021 |
|--|--|--|
| Interest Rate Cover (being EBITDA/interest) | 5.81 Times (\$423,080 / \$72,825) | 5.90 Times (\$736,454 / \$124,794) |
| Gearing Ratio (being total assets/total interest-bearing liabilities) | 3.66:1 (\$12,204,218 / \$3,336,750) | 3.69:1 (\$12,324,916 / \$3,336,750) |

11 Reconciliation of Net Profit with Net Cash Flow from Operating Activities

| | 2020 | 2021 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| Net Profit | 140,256 | 602,660 |
| Plus: Unrealised net change in fair value of investment property | <u>210,000</u> | <u>9,000</u> |
| | 350,256 | 611,660 |
| Movement in Working Capital items | | |
| - Decrease/(Increase) in trade and other receivables | - | - |
| - Increase/(Decrease) in trade and other payables | <u>13,663</u> | <u>(710)</u> |
| | <u>\$363,919</u> | <u>\$610,950</u> |

12 Related Parties

The management fees payable to the Manager will be \$15,778 plus GST for the first full year (2021), which is based on an annual management fee charge of 2% per annum on the gross rental received from the Property. In addition, the Manager will be paid an annual accountancy fee of \$5,364, payable monthly in arrears and an annual fee of \$2,500 (both plus GST) in relation to end of financial year audit preparation, with both fees being adjusted by the CPI movement each year. The Manager will also be paid an annual investor service fee of \$5,361, payable monthly in arrears, adjusted by the CPI movement each year.

13 Lessor Operating Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The Scheme's investment property has the following minimum lease payments receivable under non-cancellable operating leases:

| | 2020 | 2021 |
|---|---------------------------|---------------------------|
| | \$ | \$ |
| Not later than one year | 788,904 | 788,904 |
| Later than one year and not later than five years | 3,155,616 | 3,155,616 |
| Later than five years | <u>953,259</u> | <u>164,355</u> |
| | <u>\$4,897,779</u> | <u>\$4,108,875</u> |

14 Contingent Liabilities

There are no contingent liabilities as at 31 March 2020 or 2021.

15 Operating Environment and Taxation

The Prospective Financial Information assumes that there will be no material changes in the economic environment, legal requirements or the current tax regulations.

16 Issue of Shares

All 175 share parcels of \$25,000 shares in the former Proportionate Ownership Scheme are issued for \$4,375,000. The Investors as holders of Shares will be entitled to receive distributions as declared from time to time and are entitled to one vote per Share at meetings of Phoenix Drive Property Investments Limited and rank equally with regard to the Company's residual assets.

17 Capital Expenditure

An amount of \$210,000 has been included in the 2020 year as capital expenditure for the upgrade of the store's lighting to LED. A small amount of \$9,000 has been included in the 2021 year for capital expenditure.

Statement of accounting policies

The prospective financial statements here are for the reporting entity Phoenix Drive Property Investments Limited.

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

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

Measurement Base

The prospective financial statements have been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies which are intended to be adopted by the Directors as the Issuer's accounting policies.

Specific Accounting Policies

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

Property operating expense recoveries are recognised in accordance with the following five-step model;

- (a) Step 1: Identify the contract(s) with a customer
- (b) Step 2: Identify the performance obligations in the contract
- (c) Step 3: Determine the transaction price
- (d) Step 4: Allocate the transaction price to the performance obligations in the contract
- (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue arising from each non-lease service is recognised separately as income, once the Company has satisfied performance obligations in relation to the service.

- (b) Investment Properties: The acquisition of the investment property and the associated leases is considered a business combination. Investment Property fair value will be determined annually by external Valuers in accordance with financial reporting standards. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.
- (c) Trade and Other Receivables: Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any credit losses.

At each period end an assessment is made if there has been a significant increase in credit risk since the asset was originated to determine if an expected credit loss provision should be recorded. The provision is recognised in profit or loss and subsequent recoveries of amounts written off are recognised in profit or loss. Trade receivables are non-interest bearing and on 30-day terms.

- (d) Payables: Payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. As accounts payable do not accrue interest and are generally paid within 30 days of recognition, they are stated at the invoice amount.
- (e) Goods and Services Tax (GST): The prospective financial statements have been prepared using GST exclusive figures with the exception of receivables and payables which are stated GST inclusive.
- (f) Income Tax: As a PIE, the Issuer itself is not liable for income tax. The Issuer's taxable income is instead apportioned amongst its shareholders based on the number of Shares they hold and their prescribed investor rates.
- (g) Share Issue Costs: Share issue costs associated with respect to the establishment of Phoenix Drive Property Investments Limited will be paid from cash reserves held by the former Scheme prior to 31 August 2019.
- (h) Finance Expenses: Finance expenses comprise interest on borrowings and is accounted for using the effective interest rate.
- (i) Changes in Accounting Policies: There are no changes in the accounting policies anticipated in the first two reporting periods.

Sensitivity analysis

Prospective financial information is inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from prospective financial information and this variation could be material. A summary of the likely effects of variation in certain of these assumptions on the forecast of Cash Surplus is detailed below.

The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting the information set below.

The approach taken in respect of the sensitivities has been to determine those variables most likely to materially affect results in the 2020 and 2021 Financial Periods, as shown.

Movements in assumptions are shown occurring in the 2020 and 2021 financial years. Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions, which is not likely to be the case. It is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects. Furthermore, the sensitivity analysis does not take into account any potential mitigating actions that Directors may take.

Capital Expenditure Sensitivity

Capital expenditure of \$219,000 has been forecast in the reporting period as detailed in note 17. No other significant capital expenditure is expected to occur during the reporting period.

Tenancy Risk Sensitivity

Exposure to tenancy risk is in the normal course of the business. The Bunnings lease is not due to expire until 18 June 2026.

Interest Rate Risk Sensitivity

Exposure to interest rate risk is in the normal course of the Issuer's business. The loan will be financed by BNZ. The Issuer has forecast that the OCR interest rate will remain consistent at 1.44% to the end of the 2021 financial year. At the date of this PFI, BNZ's applicable margin is 2.3%. If the Issuer fixes at a different rate than the 3.74% assumed, the sensitivities are shown below.

Investment Property Sensitivity

The Investment property is valued at fair value. The change in value is not part of the cash flow. However it does have an impact on the Statement of Comprehensive Income and reserves. The value of these assets is sensitive to changes in assumptions (over the long term), including future tenancy risk, discount rate applied and projected operation and capital expenditure. The value of this asset may increase or decrease depending on changes in the applicable assumptions.

Investor Return Sensitivity

Returns are based on one or more hypothetical but realistic assumptions. The actual results may differ from the prospective financial information if there are fluctuations in the various factors contributing to the Issuer's prospects. The resulting variance may be material.

Forecast Sensitivities

| Description | Sensitivity applied | Impact on Forecast Cash surplus 31 March 2020 | Impact on Forecast Cash surplus 31 March 2021 |
|--|--|--|--|
| Forecast Cash on Hand at end of period | Base Forecast | \$254,217 | \$374,917 |
| Change in Interest Rate based on floating rates applicable for each year | Rate of + or - 1% | + - \$19,464 | + - \$33,368 |
| Investor Return | Projected distribution rate per annum reduced by 0.5% (to 10.5%) | \$12,760 | \$21,875 |

Results may not occur as expected and the variations may be material. Accordingly, neither the Issuer, its Directors, Maat Consulting Limited nor any other person provides any assurance that the prospective financial information will be achieved and Investors are cautioned not to place undue reliance on the prospective financial information.