LEGAL DUE DILIGENCE REPORT

81 MOLESWORTH STREET, WELLINGTON

14 OCTOBER 2016

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A INTRODUCTION, PURPOSE AND STRUCTURE OF REPORT

Introduction

1 Anthony Harper has prepared this Report in connection with the proposed acquisition by Shamrock House Investment Limited ("**Purchaser**") of the property at 81 Molesworth Street, Wellington ("**Property**") from 81 Molesworth Street Limited ("**Vendor**"). This Report has also been prepared for the benefit of Maat Consulting Limited ("**Maat**").

Purpose

2 The purpose of this Report is to identify key legal issues which have arisen from the legal due diligence exercise undertaken by Anthony Harper in respect of the Property, up to the date of this Report. In so doing, this Report does not address, or describe in detail, every document which has been reviewed by us as part of the legal due diligence. Instead, this Report highlights only those matters which we consider to be material and/or adverse in the context of the purchase of the Property. We make various recommendations and note where further action is required.

Documents reviewed

3 This Report is based solely on our review of the following:

(a) the certificate of title for the Property and the interests and memorials noted thereon as at the date of this Report;

(b) the Land Information Memorandum prepared by Wellington City Council ("**Council**") dated 12 September 2016 ("**LIM**");

(c) the lease and car park licence documentation for the Property made available by the Vendor;

(d) the agreement for sale and purchase between the Vendor and Maat or nominee dated 26 August 2016, as varied by correspondence on 13/14 October (the "**Agreement**"); and

(e) the Vendor's responses to our Due Diligence Questionnaire sent on 30 August 2016 together with supplementary questions and answers as to title, LIM and lease matters.

We have not reviewed any other information.

Bases and assumptions

4 This Report has been produced for the benefit of, and is addressed to, both the Purchaser and Maat for use in connection with the purchase of the Property. No responsibility or liability or duty of care is or will be accepted by Anthony Harper to any other party.

5 Anthony Harper consents to a copy of this report being disclosed with the Product Disclosure Statement being prepared in respect of the offer of B Shares in the Purchaser (the "**Product Disclosure Statement**"). Otherwise, this Report must not be distributed, circulated, quoted, referred to, relied upon or otherwise disseminated to or by any other entity or person at any time, other than by Anthony Harper or with Anthony Harper's prior written consent.

6 This Report has been prepared on the bases and assumptions set out in Appendix 1.

Executive Summary

7 The Overview in Section B of this Report highlights briefly what we consider, on the basis of your instructions, to be the key items and most significant issues which our due diligence review has raised. The key issues are those which in the context of the other matters are considered to be the most material although it may be that from a commercial perspective you do not consider them to be material risks.

8 The Overview in Section B of this Report must be read in conjunction with the full review at Sections C to F and must not be relied upon alone.

Yours faithfully
ANTHONY HARPER

Tim Barclay

Partner

B OVERVIEW

General

1 The Property comprises land together with an 11 level office building (including basement car parking) and an attached four-level podium building providing car parking.

Title and Interests

2 The Property is Lot 1 Deposited Plan 62033, comprising 1,246 m^2 more or less and contained in Computer Freehold Register (title) WN31A/705. The title is subject to the interests, instruments and memorials described in Part C of this Report.

3 There are no material issues as to title.

Leases / Car park licences

4 The building has three office tenants, namely Accident Compensation Corporation (**ACC**) (under two separate leases covering most of the ground floor and Levels 1 to 7), the Insurance and Financial Services Ombudsman Scheme Incorporated (**IFSO**) and Wilkinson Insurance Brokers (2014) Limited. The only retail lease is to Belleza Hair Design Limited for a hair salon on part of the ground floor. All floors of the building are fully tenanted.

5 There are 44 car parks within the building. 23 of those are leased to the office tenants under their leases of their respective premises. 19 car parks are currently let on a monthly basis to a mix of licensees (private individuals, businesses and government departments) under licences to occupy, which can be terminated by either party on one months' notice. At the date of this report, 2 car parks are currently vacant.

6 The expiry of the current lease terms for leases within the building is as follows:

(a) ACC lease (part ground floor and Levels 1 to 3) – current term expires in November 2022;

(b) ACC lease (Levels 4 to 7) - current term expires in June 2020;

(c) IFSO lease (Level 8) – current term expires in October 2019;

(d) Wilkinson Insurance Brokers (Level 9) – current term expires in April 2020;

(e) Belleza Hair Design (part ground floor) – current term expires in January 2020.

7 Further details of the key commercial terms of the leases (including rights of renewal, current rent and future rent reviews) are included within Section D below and in the general and specific lease summaries within Section 2 of the Product Disclosure Statement.

8 Key points identified in respect of the leases are as follows:

(a) All leases have very limited recoverable outgoings and are "gross" leases. While there are slight differences between the leases, non-recoverable expenses generally include rates, insurance premiums and related insurance costs, service contract charges, repairs, maintenance and redecoration costs, management expenses and the costs of obtaining an annual building warrant of fitness.

(b) The ACC and IFSO leases contain soft ratchet mechanisms within the rent review provisions meaning that the rents for those tenants cannot fall below their commencing rent levels (which are the current rent levels at the date of this report). The Wilkinson Insurance and Belleza Hair Design leases include hard ratchet provisions meaning that the rent at the time of a market review cannot decrease from the rent level applying prior to the review date. In addition, the Belleza lease provides for annual 5% fixed increases except at the time of the market review (in January 2020). The combined effect of these provisions means that there cannot be any decrease in the gross rents currently paid by the tenants.

(c) The leases to the ACC and IFSO do not include any requirement for those tenants to replace carpets or to redecorate the premises at the end of the lease term. In addition the lease to the IFSO does not include any obligation on that tenant to remove its fitout and make good damage at the expiry of that lease.

(d) The ACC leases include rights for the tenant to terminate if:

(i) A fire/earthquake or similar causes damage to the building and the premises are not repaired or reinstated within 3 months; or

(ii) There is a natural disaster or civil emergency and the premises remain inaccessible for 3 months (due to a cordon or similar).

These 3 month periods are very short, and put these leases at risk if there is a significant event such as a fire or an earthquake.

(e) The ACC leases include Landlord warranties that there are no hazardous substances within the building and that the Landlord is not aware of any lack of watertightness in the building, any material defect in the building services or any reason why the premises may not be suitable for use by the Tenant for its business use. Those warranties are expressed as essential terms, meaning that any breach of the warranties (no matter how trivial) could give the ACC a right to terminate these leases. However, it is expected that the ACC would only take such action if a material issue were to arise, which was not resolved promptly after notice to the Landlord.

(f) The ACC leases do not include usual restrictions against the Tenant carrying out alterations without the prior approval of the Landlord.

(g) The IFSO lease includes a right for the Tenant to terminate on 6 months' notice if the IFSO scheme ceases to exist. If that termination right is exercised during the first term of the lease (before October 2019), the IFSO must pay a termination fee equal to three months' rent.

LIM

9 The Wellington City District Plan notes that the Property is partially located (south east corner) within a 'ground shaking area'. The effect of this notification is that, in the event of redevelopment of the site, it is likely that site specific ground investigations would be required as part of the design phase. Otherwise, the District Plan requires hazardous facilities to be located away from such hazard areas.

10 The LIM includes reference to a building consent issued and completed in 2013 in respect of seismic strengthening, bringing the building on the Property to 100% of New Building Standard.

Sale and Purchase Agreement

11 There are no items of particular note in the Agreement.

C GENERAL REVIEW – TITLE AND INTERESTS

General

1 The Property is comprised in Computer Freehold Register (title) WN31A/705 and is a fee simple (freehold) estate of 1,246m^2 more or less. A copy of the title is included in Appendix 2.

Matters burdening the Property

2 The Property is subject to a building line restriction (imposed by a Wellington City Consolidated Bylaw in 1936) preventing the erection of any new building, rebuilding of an existing building or addition to an existing building within 66 feet (being approximately 20 metres) of the eastern (opposite) edge of Molesworth Street. We presume that, given the building was erected in 1984, this restriction is of historic significance and, further, that the building would not have been granted building consent at the time of construction if this restriction was breached.

3 The Property is subject to a memorandum imposed by the Wellington City Council pursuant to Section 354 of the Local Government Act 1974. This memorandum relates to the construction of a cellar on the Property and specifies that neither the owner of the Property, nor their successors in title (i.e. the Purchaser), shall be entitled to claim against the Council for any damage caused to the cellar (or any property within it) arising from any defect in any water supply system, sewerage system or other public utility service under the Council's control.

D GENERAL REVIEW – LEASES

General

1 The most significant tenant for the Property is ACC, a Crown owned entity, which leases part of the ground floor and levels 1 to 7 of the building. The other main office tenants are the Insurance and Financial Services Ombudsman Scheme Incorporated (an incorporated society whose members are insurance and financial service providers) and Wilkinson Insurance Brokers (2014) Limited, a private company.

2 We confirm that the summary of the key terms of the leases included in the Product Disclosure Statement is accurate.

ACC

3 There are two separate leases to ACC as follows:

(a) A lease of part of the ground floor and the whole of Levels 1 to 3 comprising 2,732 m^2, and including 14 car parks (the **ACC Lower Lease**); and

(b) A lease of the whole of levels 4 to 7 comprising 2,101 m^2, and including 2 carparks (the **ACC Upper Lease**).

Key terms of ACC Lower Lease

4 *Term* - 9 years commencing on 22 November 2013 and expiring on 21 November 2022 (no rights of renewal).

5 *Current rent* - $952,685 plus GST per annum ($901,725 for office premises at $330 per m^2 and $50,960 for car parks at $70 per park per week).

6 *Rent review dates* – 22 November 2016 and 22 November 2019 (to market).

Key terms of ACC Upper Lease

7 *Term and renewals* - 6 years commencing on 17 June 2014 and expiring on 16 June 2020. Two rights of renewal of 3 years each, with a final expiry date (if both rights of renewal are exercised) of 16 June 2026.

8 *Current rent* - $732,136 plus GST per annum ($703,816 for office premises (at $330 per m^2 for levels 4, 5 and 6 and $350 per m^2 for level 7), $8,320 for car parks at $80 per park per week and $20,000 for naming rights).

9 *Rent review dates* – 17 June 2017, 17 June 2020 and 17 June 2023 (to market).

10 *Naming rights* – The ACC Upper Lease includes exclusive naming rights for the building

Factors common to both ACC leases

11 *Form of lease* - The ACC leases are bespoke leases which are weighted in favour of the Tenant.

12 *Market rent reviews* – On each market rent review the rent cannot fall below the rent at the commencement date of the initial term of the lease. This means that the rent could decrease if there was a market downturn in the future (but not until there first is a rent increase above the commencing rent).

13 *Outgoings* – Expenses incurred by the Landlord which are recoverable from the Tenant are limited to:

(a) electricity, water and gas supplied to the Premises and used by the Tenant;

(b) telephones used by the Tenant;

(c) any other utilities or services supplied to the Premises only, and used by the Tenant;

(d) collection of rubbish from the Premises; and

(e) the cleaning and provisioning of toilets and other shared facilities that serve the Premises.

The ACC leases are accordingly "gross" leases, meaning that most outgoings are payable by the Landlord and not recoverable from the Tenant. Non-recoverable expenses will include rates, insurance premiums, electricity costs which are not specific to the premises (such as for lifts and base building air conditioning), service contract charges, repairs, maintenance and redecoration costs for the building and statutory compliance. The Vendor has advised that the recoverable outgoings payable by ACC under both leases total $66,568 plus GST per annum, out of a total operating expense budget for the building of $428,730 plus GST per annum.

14 *Repair and redecoration by the Tenant* – The ACC leases require the Tenant to keep the premises in good repair and condition, subject to usual exceptions including fair wear and tear. The leases do not contain any provisions requiring the Tenant to redecorate the premises or replace carpets at the end of the lease term, as is commonly the case in leases of commercial premises (although it is not uncommon for an "anchor" tenant to have negotiated the removal of these clauses, as is the case here).

15 *Landlord's repair and maintenance obligations* – The ACC leases include usual obligations for the Landlord to maintain the roof, exterior and structure of the building in good and substantial repair and condition, including ensuring that the building is watertight, and to maintain building services in good operational order. The leases also include:

(a) a positive obligation on the Landlord to repair or otherwise redecorate the exterior of the building (including the roof) when reasonably necessary;

(b) specific obligations on the Landlord for the upkeep of the building, including requirements to remove graffiti, clean exterior windows twice a year, etc.

None of the costs mentioned in this paragraph are recoverable from the Tenant.

16 *Seismic performance* – The ACC leases include a requirement that the building must at all times comply with the requirements of any competent authority (i.e. central or local government) in relation to seismic rating. This sets a fairly low bar, as the only legal requirement to strengthen a building applies if it is "earthquake prone" (i.e. less than 34% of New Building Standard), which is not the case. The LIM Report includes confirmation of completion of works carried out in 2013 to strengthen the building to 100% of New Bulding Standard.

17 *Tenant's self-help remedy* – The leases include a lengthy regime whereby the Tenant has the ability to carry out any works which are the responsibility of the Landlord and which the Landlord does not carry out in a timely manner, if the Landlord's failure results in a material prejudice to the Tenant. The Tenant can then recover the costs from the Landlord, or deduct those costs from the rent payable. There are a number of controls within that regime, including a process for appointing referees if there is a dispute.

18 *Tenant's alterations* –

(a) Unusually, the ACC leases do not include any restrictions against the Tenant carrying out alterations without the prior approval of the Landlord, which you would expect to see in a lease of this nature (particularly in respect of structural alterations). There is also no requirement for the Tenant to remove any such alterations it may make (unless they are Tenant's fixtures and fittings) and to reinstate any damage caused to the premises as a result of such removal.

(b) The leases include a requirement for the Landlord to carry out any works required to the remainder of the building where that is required by any building consent issued in respect of alterations being carried out by the Tenant (as an essential term – see paragraph 20). Given the inability for the Landlord to withhold consent to any Tenant's works this could mean that the Landlord would be obliged to upgrade fire compliance for the building whenever the Tenant carries out works requiring a building consent (if the building was not fire compliant at the time of those works).

19 *Termination in the event of damage or lack of access* – The Tenant may terminate the leases if:

(a) a partial damage/destruction event occurs (such as a fire or earthquake) and the premises are not repaired and reinstated within 3 months; or

(b) there is a natural disaster or civil emergency and as a result the premises are inaccessible (for instance due to a cordon, the need to complete engineering assessments or due to a lack of essential services such as power, water etc) and remain inaccessible for 3 months,

and in either situation the Tenant may terminate sooner if it can establish with reasonable certainty that the premises will not be reinstated, or access will not be restored, within 3 months from the date of the relevant event. This 3 month period is very short, and puts these tenancies at risk if there is a significant event affecting the building, such as a fire or an earthquake. The usual period of any termination right in these circumstances is 9 months.

20 *Essential landlord terms* – Unusually, the ACC leases provide that various obligations on the Landlord are "essential terms". The effect of this classification is that a breach by the Landlord of any of those obligations would give the Tenant a right (at law) to cancel the lease. The essential terms include:

(a) The requirement for the Landlord to pay all outgoings not payable by the Tenant;

(b) The requirement for the Landlord to insure the building;

(c) The Landlord's maintenance obligations;

(d) Clauses preventing particular uses (adult entertainment, video parlour, gambling, educational facility, language school, prison or correctional services, residential accommodation);

(e) The requirement to carry out any works triggered by the building consent requirements for Tenant's alterations;

(f) The 'quiet enjoyment' covenant (which includes a requirement for the Landlord to ensure that an works by it or any other Tenant that are noisy or cause vibrations are undertaken outside business hours); and

(g) The Landlord's warranties (see paragraph 23 below);

Technically the Tenant could argue that even a minor breach of these provisions would entitle it to terminate the relevant lease. It is presumably unlikely that this would occur – even with a right to terminate a reasonable tenant would normally set out its concerns in writing and give the Landlord an opportunity to remedy the situation.

21 *Removal of Tenant's fixtures and fittings* – At the end or earlier termination of the ACC leases the Tenant has the option of either:

(a) With the Landlord's approval (which cannot be unreasonably withheld) leaving all (or part) of the Tenant's fixtures and fittings in the Premises, and making good any damage caused to the premises in respect of the items removed; or

(b) Removing all of the Tenant's fixtures and fittings and making good any damage caused to the premises as a result.

This is different from most commercial leases where the Landlord can require removal of all Tenant's fixtures and fittings, without any requirement to act reasonably. However, we expect it will be reasonable for the Landlord to require the removal of any of the Tenant's fixtures and fittings which would not be of benefit to an incoming tenant on the expiry of the ACC leases.

22 *Assignment* – On an assignment by ACC or the Crown the assigning tenant has no further liability under the lease from the date of assignment. However, the ACC leases include usual provisions requiring the Landlord to consent to an assignment, meaning that any incoming tenant will need to have the financial resources to meet the tenant's commitments under the lease.

23 *Warranty as to suitability* – The ACC leases include Landlord warranties that:

(a) neither the premises nor the building contain any polycarbonated biphenyls (PCBs), asbestos or any other hazardous substance; and

(b) the Landlord is not aware of any lack of watertightness in the building, any material defect or potential defect in any of the building services, or any other reason why the premises might not be suitable for use by the Tenant for its business use.

These warranties are unusual, and normally a Landlord would not warrant the suitability of commercial premises in this manner. As these warranties are expressed to be essential terms, a breach of them would entitle the Tenant to cancel the lease. However, we do not expect that the Tenant would cancel in these circumstances unless a significant concern was identified and not remedied by the Landlord within a reasonable timeframe.

Insurance and Financial Services Ombudsman Scheme Incorporated

24 *Form of lease* - The Deed of Lease with this Tenant is dated 20 August 2016. We have pointed out a technical issue in the lease signing to the Vendor, as the common seal of the Tenant (an incorporated society) was not affixed to the lease when it was signed. The Vendor has confirmed that steps are being taken to remedy this by the Tenant. In any event, there is no argument that the Tenant is not bound by the Deed of Lease, as there was a validly signed Agreement to Lease that pre-dated the Deed of Lease. The Deed of Lease is on the Auckland District Law Society (Sixth Edition) form, with amendments that are generally favourable to the Tenant.

25 *Premises* – Level 8 of the building, comprising 525 m^2, and including 2 car parks.

26 *Term and renewals* – 4 years commencing on 1 November 2015 and expiring on 31 October 2019. The Tenant has one right of renewal for a further 4 years, with a final expiry date (if the right of renewal is exercised) of 31 October 2023.

27 *Current rent* - \$197,840 plus GST per annum (\$189,000 for office premises at \$360 per m^2 and \$8,840 for car parks at \$85 per park per week).

28 *Rent review dates* – 1 November 2017, 1 November 2019 and 1 November 2021 (to market).

29 *Market rent reviews* – On each market rent review the rent cannot fall below the rent at the commencement date of the initial term of the lease. This means that the rent could decrease if there was a market downturn in the future (but not until there first is a rent increase above the commencing rent).

30 *Outgoings* – Expenses incurred by the Landlord which are recoverable from the Tenant are limited to:

(a) water, gas, electricity, telecommunications and other utilities or services;

(b) rubbish collection and recycling charges;

(c) NZ Fire Service charges; and

(d) the cleaning and provisioning of toilets and other shared facilities.

The lease is accordingly a "gross" lease, meaning that most outgoings are payable by the Landlord and not recoverable from the Tenant. Non-recoverable expenses will include rates, insurance premiums, service contract charges, repairs, maintenance and redecoration costs for the building and statutory compliance. The Vendor has advised that the recoverable outgoings payable by this Tenant total $8,505 plus GST per annum, out of a total operating expense budget for the building of $428,730 plus GST per annum.

31 *No requirement to redecorate or replace floor coverings* – The Tenant is not required to redecorate the premises or replace worn floor coverings at the end of the lease term.

32 *Removal of Tenant's fixtures and fittings* – At the end or earlier termination of the lease, the Tenant is not required to remove its initial fitout of the premises and make good any damage caused. The Tenant is however required to remove/reinstate any alterations or additions made after the commencement of the lease.

33 *Repair of damaged premises* – The standard provisions of the ADLS lease have been amended so that if the premises are damaged (but not destroyed or so badly damaged to result in termination of the lease) then the Landlord must repair/reinstate the building provided all necessary permits and consents are available. Normally, the Landlord does not have to reinstate if the insurance monies received are inadequate, but that proviso to the repair obligation has been removed. The effect is that if the building is under-insured for whatever reason, the Company could be forced to still reinstate the building by using its own funds.

34 *Termination in the event of damage or lack of access* – The Tenant may terminate the lease if:

(a) a partial damage/destruction event occurs (such as a fire or earthquake) and reinstatement works either haven't commenced within 3 months or haven't been completed within 12 months of the date of damage; or

(b) the premises are inaccessible or unusable due to damage to the building or any neighbouring building (rendering the building unsafe), a cordon, an access restriction or a lack of essential services such as power, water etc, and remain inaccessible for 6 months.

The 6 month period in (b) is short compared with the usual period for termination in these circumstances which is 9 months.

35 *Seismic rating* – The lease includes various obligations in relation to the seismic strength of the building including:

(a) A warranty by the Landlord that the building at the commencement date (1 November 2015) has a seismic strength rating of 100% of New Building Standard (**NBS**);

(b) An obligation on the Landlord to strengthen the building to at least 70% of New Building Standard if it falls below that level during the term of the lease. If any strengthening work required causes more than "minimal disruption" to the Tenant's use and enjoyment of the premises <u>or</u> those works require the premises to be vacated for more than 3 months <u>or</u> the any strengthening is not completed within 4 months of a notice from the Tenant, then the Tenant is entitled to terminate the lease. As strengthening works are usually, by their nature, materially disruptive, it is likely that the Tenant would have an ability to terminate the lease if the building fell below 70% of NBS and strengthening was required.

As mentioned above, the LIM Report includes reference to works having been carried out in 2013 to strengthen the building to 100% of New Building Standard, so the warranty at (a) appears to have been satisfied. It is considered unlikely that the seismic rating would be downgraded to below 70% of New Building Standard during the term of this lease. That would require a significant change in the relevant building code requirements.

36 *Early termination right* – The Tenant has a right to terminate on 6 months' notice if the Insurance and Financial Services Ombudsman Scheme Incorporated is disestablished or

otherwise ceases to exist or conduct business. If that termination right is exercised during the first term of the lease (i.e. before 31 October 2019) then the Tenant must pay a termination fee equivalent to three months' rent.

Wilkinson Insurance Brokers (2014) Limited

37 *Form of lease* - The Deed of Lease with this Tenant is dated 7 October 2016. The Deed of Lease is on the Auckland District Law Society (Sixth Edition) form, with only minor amendments.

38 *Premises* – Level 9 of the building, comprising 310 m^2, and including 5 car parks.

39 *Term and renewals* – 6 years commencing on 1 May 2014 and expiring on 30 April 2020. The Tenant has two rights of renewal for further terms of 3 years each, with a final expiry date (if both rights of renewal are exercised) of 30 April 2026.

40 *Current rent* - $125,435 plus GST per annum ($108,535 for office premises at $360 per m^2 and $16,900 for car parks at $65 per park per week).

41 *Rent review dates* – 1 May 2017, 1 May 2020 and 1 May 2023 (to market).

42 *Market rent reviews* – On each market rent review the rent cannot fall below the rent immediately prior to the review date, meaning that the rent cannot decrease (unless the Tenant negotiates a decrease before exercising a right of renewal).

43 *Outgoings* – Expenses incurred by the Landlord which are recoverable from the Tenant are limited to:

(a) water, gas, electricity, telecommunications and other utilities or services;

(b) rubbish collection and recycling charges;

(c) NZ Fire Service charges; and

(d) the cleaning and provisioning of toilets and other shared facilities.

The lease is accordingly a "gross" lease, meaning that most outgoings are payable by the Landlord and not recoverable from the Tenant. Non-recoverable expenses will include rates, insurance premiums, service contract charges, repairs, maintenance and redecoration costs for the building and statutory compliance costs. The Vendor has advised that the recoverable outgoings payable by this Tenant total $5,641 plus GST per annum, out of a total operating expense budget for the building of $428,730 plus GST per annum.

44 There are no other material items of note in respect of this lease.

Belleza Hair Design Limited

45 *Status of lease* - The deed of lease with this Tenant has not yet been executed. We have seen a signed but undated Agreement to Lease. The Vendor has advised that the lease is with the Tenant for execution. In any event the Tenant is bound as if the lease was executed in the form attached to the Agreement to Lease. The agreed form of the deed of lease is on the Auckland District Law Society (Sixth Edition) form, with only minor amendments.

46 *Guarantor* – The obligations of the Tenant under the lease are guaranteed by Thanousone Xuenphanh, one of the directors of Belleza Hair Design Limited.

47 *Premises* – Part of the ground floor of the building, comprising 41 m^2.

48 *Term and renewals* – 6 years commencing on 13 January 2014 and expiring on 12 January 2020. The Tenant has one right of renewal for a further term of 3 years, with a final expiry date (if the renewal is exercised) of 12 January 2023.

49 *Current rent* - $22,601 plus GST per annum.

50 *Rent review dates:*

(a) Fixed increases at 5% per annum on each anniversary of the commencement date other than the market review date.

(b) Market review on the renewal date – 13 January 2020.

51 *Market rent reviews* – On the market rent review the rent cannot fall below the rent immediately prior to the review date, meaning that the rent cannot decrease (unless the Tenant is able to negotiate a decrease before exercising its right of renewal).

52 *Outgoings* – Expenses incurred by the Landlord which are recoverable from the Tenant are limited to:

(a) water, gas, electricity, telecommunications and other utilities or services;

(b) rubbish collection and recycling charges;

(c) insurance premiums and related valuation fees and any insurance excess (not exceeding $2,000);

(d) NZ Fire Service charges; and

(e) the cleaning and provisioning of toilets and other shared facilities.

The lease is accordingly a "semi-gross" lease, meaning that some outgoings are payable by the Landlord and not recoverable from the Tenant. Non-recoverable expenses will include rates, service contract charges, repairs, maintenance and redecoration costs for the building and statutory compliance costs. Notably, and unlike the office leases, this lease does including insurance costs as recoverable outgoings (although the Tenant will only pay a proportion of those overall costs). The Vendor has advised that the recoverable outgoings payable by this Tenant total $1,188 plus GST per annum, out of a total operating expense budget for the building of $428,730 plus GST per annum.

53 There are no other material items of note in respect of this lease.

Car park licences

54 There are 44 car parks within the building, of which:

(a) 23 of are currently leased to Tenants under the Leases referred to above;

(b) 19 are the subject of monthly car parking licences; and

(c) 2 are currently vacant.

55 The licence fees payable under the monthly car park licences (on an annual basis) are $74,898.36 plus GST per annum.

56 There is nothing of concern within the car park licences. The main thing to note is that these can be terminated by either the licensor or the licensee on one months' notice.

E GENERAL REVIEW - LAND INFORMATION MEMORANDUM (LIM)

General

1 A copy of the LIM is uploaded separately to this Report to the Purchaser's disclosure register. The zoning for the site under the Wellington City District Plan ("**District Plan**") is Central.

Matters of note

2 The District Plan notes that the Property is partially located (south east corner) within a 'ground shaking area'. The effect of this notation is that, in the event of redevelopment of the building, it is likely that site specific ground investigations would be required as part of the design phase. Otherwise, the District Plan requires hazardous facilities to be located away from such hazard areas.

3 The LIM includes reference to a building consent issued and completed in 2013 in respect of seismic strengthening, bringing the Property to 100% of New Building Standard.

4 The Property has a current building warrant of fitness, expiring in July 2017. While this isn't shown in the LIM the Council has subsequently confirmed receipt of the warrant of fitness.

5 The LIM includes a Council resolution consenting to the construction of a cellar on the proviso that the Council shall not be liable for any damage caused to the cellar or any property onsite arising directly or indirectly from any defect in any water supply system, sewage system or other public utility service under the Council's control. This restriction on the Council's liability has been registered against the title to the Property as detailed at paragraph C.3 of this due diligence report.

6 The LIM notes that there are public wastewater and stormwater mains located within the Property and that approval to build any structure over public drains is subject to the standard conditions that are applicable. The LIM also includes reference to the following drainage issues:

(a) Sewage flowing into the basement in June 1999. The Council investigated and completed the necessary work.

(b) Manhole pumping water into the carpark in December 1999. The Council investigated and completed the necessary work.

(c) Blocked sump inside the Property in April 2016. The Council investigated and determined it was a private fault. The Vendor has confirmed that the necessary repair works have been completed.

7 The LIM includes a Stationary Container Test Certificate in relation to the storage of diesel fuel in an aboveground tank for the purpose of supplying the Emergency Generator referred to above. The Certificate expired on 28 May 2011. The Vendor has confirmed that this diesel tank related to a generator which has been decommissioned, and so there is no need for a current certificate.

F GENERAL REVIEW – AGREEMENT FOR SALE AND PURCHASE

General

1 The Agreement is a modified version of the ADLS/REINZ Ninth Edition 2012(3) form; as negotiated by the parties. The Agreement was signed on 26 August 2016, and modified by correspondence on 13/14 October 2016, following the consideration of advice from Colliers International (Wellington Valuation) Limited giving a current market rental assessment in respect of the ACC lease of the ground floor and Levels 1 to 3. (It should be noted that this rent review has not been completed and the outcome of that rent review won't be known until after settlement of the purchase of the Property).

2 The key commercial terms of the Agreement (as varied by the correspondence) are:

(a) **Price:** $24,946,800 plus GST (zero-rated);

(b) **Conditions:**

(i) Purchaser's due diligence (which has been satisfied); and

(ii) Purchaser's capital raising by 5 December 2016;

(c) **Deposit:** 5% ($1,247,340) payable on satisfaction of the Purchaser's capital raising condition (i.e. when the Agreement is unconditional); and

(d) **Settlement date:** 10 working days after the Agreement is declared unconditional, once the Purchaser's capital raising condition is satisfied – expected to be 19 December 2016.

3 The Agreement includes warranties from the Vendor that:

(a) all information disclosed to the Purchaser during its due diligence investigations is true, accurate and complete to the best of the Vendor's knowledge; and

(b) it does not hold any information which would reasonably be considered to be material to a purchaser of the Property and which has not been provided to the Purchaser during its due diligence investigation.

4 The Agreement originally included provisions relating to an adjustment of the purchase price depending on the outcome of the rent review due on 22 November 2016 for the ACC lease of the ground floor and Levels 1 to 3. It was agreed by correspondence on 13/14 October 2016 that the purchase price would be fixed at $24,946,800 plus GST, and that the Purchaser would be solely responsible for the conduct of that rent review (after settlement of its purchase of the Property).

APPENDIX 1 BASES AND ASSUMPTIONS OF THIS REPORT

This Report is subject to the qualifications set out below.

1 We have relied exclusively on the accuracy and completeness of the information made available to us and the results of our searches, and have not undertaken any separate verification of this information.

2 We have assumed:

(a) that all documents made available to us are authentic, complete and factually accurate, and that all copy documents are true and complete copies of the originals of them;

(b) that all signatures, stamps, seals and dates, if any, on all documents made available to us as originals or as copies of originals are genuine;

(c) that, where extracts only of a document have been made available to us, the extracts do not give a misleading view of the document as a whole;

(d) the accuracy of all searches conducted by us, the continuing correctness of those searches from the date of the relevant search until the date of this Report, and that further searches would not have revealed additional or different matters;

(e) the responses to the questions which we have put to the Vendor have been true and correct in all respects and have contained no material omissions;

(f) that all agreements, instruments and documents reviewed by Anthony Harper were duly authorised and validly executed, and that all necessary corporate actions to authorise their delivery and performance were taken and that the relevant parties to them then had all necessary capacity under their constitutions to do such things and that, except as otherwise expressly indicated, all documents are valid and binding on all parties to them;

(g) that such agreements, instruments and documents still exist and continue unamended and in full force and effect, and have not been varied, cancelled or superseded by some other document or agreement of which we are unaware; and

(h) that no information which is material in the context of the matters under review has been withheld from us.

3 Agreements comprised in documents made available to us may not in fact have been performed in accordance with their terms or at all.

4 Any term of any agreement comprised in the documents made available to us may have been amended already by the parties either orally or by conduct or by course of dealings without our being aware of such amendment. In addition, there may be agreements which are wholly oral of which we are unaware.

5 There may be breaches of the obligations of any of the parties to the documents made available to us which have not been disclosed.

6 This Report is based on the information provided to us at the date of this Report. Unless subsequently specifically agreed, no responsibility is undertaken to update this Report.

7 This Report is strictly limited to the matters stated in it, and does not extend and is not to be read as extending by implication to any other matter. Without limitation:

(a) this Report does not include any comments on the value of the Property;

(b) this Report does not include any comment on the development potential of the Property or any uses to which the Property may be put other than its existing use; and

(c) except as otherwise expressly indicated, this Report does not advise on the commercial nature or effect of the transactions contemplated by or associated with the agreements and documentation referred to in this Report.

8 In addition, we have not carried out a "plan check" in respect of the Property to confirm that the Property complies with all relevant Resource Management Act requirements, and as such:

(a) we have not inspected any Wellington City Council files in relation to the Property; and

(b) we have limited our planning investigations to reviewing the LIM in order to confirm that there are no outstanding requisitions or enforcement notices in respect of the Property and no outstanding resource consent conditions which are immediately apparent from our review of the LIM.

9 Our review does not extend to commenting on matters of business judgement or property valuation.

APPENDIX 2 CERTIFICATE OF TITLE

COMPUTER FREEHOLD REGISTER
UNDER LAND TRANSFER ACT 1952

Search Copy

R.W. Muir
Registrar-General
of Land

Identifier	**WN31A/705**
Land Registration District	**Wellington**
Date Issued	12 October 1987

Prior References

WN111/248	WN13A/1016	WN350/185
WN548/37	WN5D/248	

Estate	Fee Simple
Area	1246 square metres more or less
Legal Description	Lot 1 Deposited Plan 62033

Proprietors

81 MOLESWORTH STREET LIMITED

Interests

Appurtenant to the land formerly contained in CsT WN111/248 and WN548/37 is a Right of Way over part Ct WN731/84 pusuant to section 10(11) Wellington City Empowering and Amendment Act 1922

K21666 Notice that part of the western side of Molesworth Street is Subject to The Wellington City Consolidated Bylaw No.1933/1 as amended by No.1936/9

618596.1 Memorandum of the conditions imposed by The Wellington City Council pursuant to Section 354 Local Government Act 1974 relating to the construction of a cellar on the above described land - 13.4.1984 at 9.47 am

9245147.2 Mortgage to ANZ Bank New Zealand Limited - 23.11.2012 at 5:35 pm

Identifier **WN31A/705**