PMG Direct Office Fund
Supplementary Information – Prospective Financial Information
Offer Number OFR12588

Basis of preparation

The prospective financial information included below is for the reporting entity Property Managers Limited (the **Manager**) in respect of the PMG Direct Office Fund (the **Fund**). The Fund was established under the Financial Markets Conduct Act 2013 (**FMCA**) and is 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 established on 14 December 2016.

The Fund was established to hold property in a geographically diversified office portfolio. Initially the Fund acquired properties managed by the Manager as stand-alone schemes. The Fund is now purchasing additional property. Further information about the Manager's investment strategy are set out in the Statement of Investment Policies and Objectives for the Fund. The supervisor of the Fund is Covenant Trustee Services Limited (the **Supervisor**).

The Manager is offering investors 18,000,000 units in the Fund at $1.12 each (the **Offer**). The Manager is making the Offer to raise capital to provide further funding for the Fund to acquire two investment properties, one in Auckland and one in Hamilton (together, the **Acquisition Properties**). The Product Disclosure Statement (**PDS)** for the Offer can be found at www.business.govt.nz/disclose, offer number **OFR12588**.

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

The Prospective Financial Statements for the Fund were prepared and authorised by the directors of the Manager as at 8 March 2019 for use in the PDS and not for any other purpose. The Manager is responsible for the Prospective Financial Statements including the assumptions underlying the Prospective Financial Statements and all other required disclosures.

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

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

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

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

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

The projected returns shown below are based on holding one or more parcels of 28,000,000 units to 16 April 2019 or one or more parcels of 46,000,000 units from 17 April 2019 onwards (18,000,000 more units due to the issue of new units at an issue price of $1.12 each under the Offer) and calculated on the basis of distributions from available cash surpluses.

The accounting policies assumed in the Prospective Financial Statements reflect the policies currently adopted by the Manager in the interim financial statements of the Fund to 30 September 2018 and the proposed accounting policies for the year ending 31 March 2019, 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.

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PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDING 31 MARCH

	2019 $	2020 $	2021 $
Revenue			
Rent from investment properties	3,674,244	5,664,496	5,907,616
Operating expenses recoveries – NZ IAS 17	533,627	909,039	945,765
Operating expenses recoveries – NZ IFRS 15	266,798	416,214	415,977
Total revenue	**4,474,669**	**6,989,749**	**7,269,358**
Less expenses			
Accountancy	12,538	15,000	40,750
Audit of Financial Statements	27,500	30,000	30,000
Property & fund management fees	353,148	548,132	562,340
Property operating expenses	1,255,861	1,320,468	1,372,701
Valuation fees	39,810	35,000	40,000
Administration costs	191,391	188,592	197,189
Total expenses	**1,880,248**	**2,137,192**	**2,242,980**
Operating Profit	**2,594,421**	**4,852,557**	**5,026,378**
Finance costs			
Interest expense	1,040,030	1,481,770	1,576,021
Net financing costs	**1,040,030**	**1,481,770**	**1,576,021**
Dividends Received	5,215	-	-
Unrealised gain on value of investment property	1,415,305	-	-
Realised loss on disposal of investment property	(160,627)	-	-
Unrealised loss on derivative financial instruments	(90,729)	-	-
Profit before income tax	**2,723,555**	**3,370,787**	**3,450,357**
Income tax expense	-	-	-
Net profit for the year	**2,723,555**	**3,370,787**	**3,450,357**
Other comprehensive income net of tax	-	-	-
Total comprehensive income for the year	**2,723,555**	**3,370,787**	**3,450,357**

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

	Issued Units $	Retained Earnings $	Total Equity $
Balance at 1 April 2018	27,088,989	3,771,099	30,860,088
Net profit for the year and total comprehensive income	-	2,723,555	2,723,555
Transactions with investors in their capacity as investors:			
Issue Costs	(449)	-	(449)
Distributions to investors	-	(2,100,000)	(2,100,000)
Balance at 31 March 2019	**27,088,540**	**4,394,654**	**31,483,194**
Balance as at 1 April 2019	27,088,540	4,394,654	31,483,194
Net profit for the year and total comprehensive income	-	3,370,787	3,370,787
Transactions with investors in their capacity as investors:			
Units issued during the year	20,160,000	-	20,160,000
Issue Costs	(1,372,307)	-	(1,372,307)
Distributions to investors	-	(3,386,250)	(3,386,250)
Balance at 31 March 2020	**45,876,233**	**4,379,191**	**50,255,424**
Balance as at 1 April 2020	45,876,233	4,379,191	50,255,424
Net profit for the year and total comprehensive income	-	3,450,357	3,450,357
Transactions with investors in their capacity as investors:			
Distributions to investors	-	(3,450,000)	(3,450,000)
Balance at 31 March 2021	**45,876,233**	**4,379,548**	**50,255,781**

PROSPECTIVE STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH

	2019 $	2020 $	2021 $
Assets			
Current assets			
Cash and cash equivalents	570,193	40,800	18,327
Trade and other receivables	82,478	129,300	130,500
Other current assets	425,014	534,431	459,181
	1,077,685	**704,531**	**608,008**
Non-current assets			
Investment property	51,000,000	83,170,093	84,300,093
	51,000,000	**83,170,093**	**84,300,093**
TOTAL ASSETS	**52,077,685**	**83,874,624**	**84,908,101**
Liabilities			
Current liabilities			
Trade and other payables	303,637	382,846	365,966
Derivative Financial Instruments	175,352	175,352	175,352
Distribution payable	175,000	287,500	287,500
Other current liabilities	68,100	68,100	68,100
	722,089	**913,798**	**896,918**
Non-current liabilities			
Secured term liabilities	19,872,402	32,705,402	33,755,402
	19,872,402	**32,705,402**	**33,755,402**
TOTAL LIABILITIES	**20,594,491**	**33,619,200**	**34,652,320**
TOTAL EQUITY	**31,483,194**	**50,255,424**	**50,255,781**

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PROSPECTIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDING 31 MARCH

	2019 $	2020 $	2021 $
Cash Flows from operating activities			
Cash was provided from:			
Receipts from customers	4,300,643	6,805,018	7,314,917
Dividend Income	5,215	-	-
GST received	44,455	43,486	-
Cash was applied to:			
Payments to suppliers	(2,446,920)	(2,072,977)	(2,203,591)
Interest and other finance costs paid	(1,040,029)	(1,481,770)	(1,576,021)
GST paid	-	-	(27,778)
Net cash inflow from operating activities	**863,364**	**3,293,757**	**3,507,527**
Cash Flows from investing activities			
Cash was provided from:			
Sale of investment property	12,295,118	-	-
Cash was applied to:			
Purchase of investment property and capital expenditure	(14,161,979)	(32,170,093)	(1,130,000)
Net cash inflow/(outflow)from investing activities	**(1,866,861)**	**(32,170,093)**	**(1,130,000)**
Cash Flows from financing activities			
Cash was provided from:			
Proceeds from issue of share capital	-	20,160,000	-
Proceeds from borrowing	3,565,000	12,833,000	1,050,000
Cash was applied to:			
Unit issue transaction costs	(449)	(1,372,307)	-
Distributions to Investors	(2,100,000)	(3,273,750)	(3,450,000)
Net cash inflow/ (outflow) from financing activities	**1,464,551**	**28,346,943**	**(2,400,000)**
Net increase (decrease) in cash and cash equivalents	461,054	(529,393)	(22,473)
Cash and cash equivalents at the start of the financial year	109,139	570,193	40,800
Cash and cash equivalents at the end of the financial year	**570,193**	**40,800**	**18,327**

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NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Statement of accounting policies

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

(b) **Relevant preparation periods:** The Prospective Financial Statements of the Fund have been prepared for the years ending 31 March 2019, 31 March 2020 and 31 March 2021. For the year ended 31 March 2019 the Prospective Financial Statements include actual interim results for the period 1 April 2018 to 30 September 2018, actual management reporting results for the period 1 October 2018 to 31 December 2018, and prospective information for the period 1 January 2019 to 31 March 2019.

(c) **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, when or as control of the promised services is transferred to customers, in an amount that reflects the consideration the Fund expect to be entitled to in exchange for those services. 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 granted are recognised as assets and amortised as a reduction in rental revenue over the remaining lease term. Contingent rentals are recognised as income in the period when earned.

Operating Expenses recoveries - The Fund provides a suite of services to occupiers of the Fund's property, summarised as property ownership services. The Fund reports revenue from such services in the Revenue line in the statement of profit or loss and other comprehensive income.

Property ownership services involve the management of the Fund's investment property leased to customers. Contracts for property ownership services are often structured so the Fund is reimbursed for subcontracted vendor costs as well as associated overhead expenses and management fees (operating expense recoveries). Property ownership services represent a series of distinct daily services rendered over time to deliver the overall performance obligation of managing the tenancy and property for each customer. The Fund is also often reimbursed for administrative and sub-contractor costs directly attributable to the properties under management.

The amount of revenue recognised is presented gross for all property ownership activities (with an offsetting expense recorded in cost of services provided) as these are reimbursements of costs of third-party services delivered to customers that are controlled by the Fund, therefore the Fund is considered to be the Principal for those services. In any instances where the Fund does not control third-party services delivered to the client, the Fund is considered to be an Agent and therefore reports revenues net of the third-party charges for the services performed.

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The Fund assesses variable consideration, relating to expense recoveries on a contract by contract basis, and when appropriate, recognises revenue based on Management's assessment of the outcome (using a weighted probability approach) and historical results, if comparable and representative. Using management assessment and historical results and statistics the Fund recognises revenue if it is deemed probable there will not be significant reversal in the future.

Tenants pay for such expenses as they are incurred by the Fund. 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 cost recoveries are recognised when invoiced on a monthly basis which is in line with when the Fund meets the 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 component applicable to such costs, so the transaction price is allocated on a straight-line basis.

Rent revenue and some of the outgoings recovered from the tenants constitute being part of a lease and are dealt with under the scope of NZ IAS 17 Leases, and so are outside the scope of NZ IFRS 15 Revenue from Contracts with Customers. The Outgoings recovered that are dealt with under the scope of NZ IAS 17 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, valuation, 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 are electricity, rubbish collection, cleaning, gardening services, management expenses and security expenses. They are an additional service over and above the lease of rental space and so are separated from lease income.

Interest - Interest revenue 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.

Dividend Income - Dividend Income is recognised on the date that the Fund's right to receive payment is established.

(d) **Property and Fund Management Fees:** The Manager is entitled to a management fee equal to 0.5% 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) and a property management fee equal to 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.

(e) **Performance Fee Expenses:** The Manager is entitled to a performance fee equivalent to 20% of the excess performance above the Manager's Performance Benchmark (Performance Benchmark). The current performance benchmark is the average 10-year government bond yield 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 Performance Fee is included within Administration costs in the statement of comprehensive income.

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(f) **Property Project Fee Expenses:** On acquisition of a new property by the Fund, The Manager is entitled to a fee equal to 1% of the acquisition price of a property, with a minimum fee of $150,000 per property (Acquisition Fee) (such fees will no longer be payable if the Fund's value exceeds $250 million). Such fees are included within the carrying value of investment property in the statement of financial position.

On disposal of a property held by the Fund, a fee equal to 1% of the sales price for the property is also payable to the Manager.

If the Fund undertakes an investigation into the acquisition of a new property or disposal of an existing property in 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.

If construction or refurbishment is undertaken on a property held by the Fund, a fee equal to 5% of the development costs is payable (provided that those development costs exceed $50,000). This fee is included within the carrying value of investment property in the statement of financial position. 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.

(g) **Supervisor's Fee Expenses:** The Supervisor is entitled to an annual base fee, as agreed between the Manager and Supervisor. This must not exceed 0.06% per annum of the Net Asset Value (NAV) of the Fund (subject to a minimum annual fee of $20,000). Special fees are payable, 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.

(h) **Recovery of 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 Offers, 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, any taxes, duties, imposts or levies charged to the Manager or Supervisor in connection with the Fund, the costs of convening and holding Investor meetings, professional services fees (legal, accounting, etc) incurred by the Manager or 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 Manager or Supervisor in connection with carrying out their duties under the Master Trust Deed.

(i) **Sub-contracted investment and administration services:** If the Manager sub-contracts investment management or administration services, the providers of those services will be paid a reasonable fee on normal commercial terms and will be entitled to be reimbursed for any costs, charges or disbursements, out of the Fund.

(j) **Other 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 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.

(k) **Finance Costs:** Finance costs 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.

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(l) **Investment Property:** 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 subsequently remeasured 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 the profit or loss in the year of disposal and is calculated as the difference between the proceeds of sale and the carrying value of the property.

(m) **Financial Assets**

Cash and cash equivalents - includes 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 changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position when applicable. Cash and cash equivalents are classified as loans and receivables.

Trade and other receivables - include lease receivables and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any loss allowance. Trade receivables are generally due for settlement within 30 days.

The Fund has elected to apply the simplified approach thereby recognising lifetime expected credit losses on trade and lease 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.

The Fund records trade receivables for unconditional rights to consideration arising from performance under contracts with customers. The carrying value of such receivables, net of the loss allowance represents their estimated net realisable value. 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. As a practical expedient, the Fund does not adjust the promised amount of consideration for the effects of a significant financing component when the Fund expects, at contract inception, that the period between transfer of a promised service to a customer and when the customer pays for that service will be one year or less. The Fund does not typically include extended payment terms in contracts with customers.

(n) **Financial Liabilities**

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 payable are classified as financial liabilities measured at amortised cost.

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Borrowings: are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. They are classified as financial liabilities measured at amortised cost.

Derivative Financial Instruments: The Fund enters interest rate swaps. These are classified as financial assets or liabilities at fair value through the profit or loss on initial recognition. They are initially recognised at fair value on the date a derivative contract is entered and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value is recorded directly in profit or loss. Due to their nature, derivative financial instruments are classified as financial assets or liabilities.

(o) **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.

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

(q) **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 gross 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.

r) **Income Tax**: The Fund elected to be a multi-rate Portfolio Investment Entity ("PIE") from the commencement date of the Fund for income tax purposes. This means that all tax will be calculated and paid at the Fund level under the PIE rules, based on each investor's share of the entity's income at the investor's Prescribed Investor Rate ("PIR"). An investor's PIR may be either 0%, 10.5%, 17.5% or 28% depending on their circumstances (with this rate capped at 28%). Distributions from a PIE will not be taxable.

The tax deducted is a debt due to the crown and is paid directly to the Inland Revenue Department on the investors' behalf.

(s) **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 conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased

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assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

In all cases the Fund is not a Lessee, but a Lessor of investment property. 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.

(t) **Unit Issue Costs:** Qualifying Unit Issue Costs associated with raising equity are deducted directly from the Unit Issue Proceeds within equity. Qualifying Unit Issue Costs are incremental and directly attributable to the issuing of units in the Fund.

(u) **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.

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.

(v) **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.

(w) **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.

(x) **Changes in Accounting Policies:** Since the most recent annual historical financial statements of the Fund, the Fund has adopted NZ IFRS 9 – Financial Instruments, and NZ IFRS 15 – Revenue From Contracts with Customers. Changes as a result of these adoptions have been incorporated in to these prospective financial statements, mirroring those included in the interim financial statements for the 6 months to 30 September 2018. No further significant changes in accounting policies are anticipated in the prospective reporting periods compared to those included in the most recent historical financial statements of the Fund. The only known change to future accounting policies of the Fund is in relation to the adoption of NZ IFRS 16 – Leases. As a lessor, the Fund does not believe adoption of NZ IFRS 16 will have a material effect on the prospective financial information.

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 section 7 of the PDS and the sensitivity analysis shown further below in this section.

(a) **Settlement Date:** The Fund intends to settle the acquisition of the Acquisition Properties on the estimated settlement date of 17 April 2019 (**Settlement Date**). The Prospective Financial Statements only include information related to the Acquisition Properties from the estimated Settlement Date.

The Settlement Date and purchase price for the Acquisition Properties is derived from sale and purchase agreements for the Acquisition Properties.

(b) **Issue Costs:** For the Offer, the Fund has estimated approximately $1,700,000 of issuance costs which include legal fees, accounting fees, property valuations, brokerage fees, underwriting fees, marketing costs, finance and compliance costs. It is assumed that 18,000,000 units are issued at $1.12 each. Of these costs, $327,693 will be recorded within investment property and the remainder directly within equity.

(c) **Rental Income:** The Prospective Financial Statements assume annual rental income will be received in accordance with current signed lease agreements for each property currently leased. A number of assumptions are made in connection with leasing vacant space and rent reviews during the forecast period. The prospective rental income is as follows:

Rental income	**2019**	**2020**	**2021**
65B Main Highway	-	1,418,878	1,531,332
410 Victoria Street and 12 Alma Street	-	587,120	612,988
5 Short Street	1,262,072	1,302,648	1,365,025
2 Robert Street	725,847	837,762	849,981
8 Rockridge Avenue	648,472	866,820	863,090
127 Durham Street	86,389	229,587	229,587
143 Durham Street	314,941	421,681	455,613
22 Amersham Way	565,300	-	-
Properties Disposed	71,223	-	-
Total	**3,674,244**	**5,664,496**	**5,907,616**

All rental income above excludes the recoverable operating expenses. Rental income is included only from the date of acquisition, and up to the date of disposal, where appropriate.

There are 26 individual lease agreements that are due for renewal in the prospective periods ending 31 March 2021 representing annual net rental income of $2,010,838 or 37.5% of the prospective net rental income of the portfolio, annualised as at Settlement Date.

	2019	**2020**	**2021**
Leases due for renewal	3	11	12
Net annual rental due for renewal	$132,863	$1,209,399	$668,576
Due for renewal as percentage of portfolio as at Settlement Date	2.5%	22.6%	12.5%

Below is a summary of the key tenancies by building and the key assumptions that will impact the rental income during the prospective financial periods ending 31 March 2021. Throughout property acquisition or disposal dates and amounts are taken from unconditional signed sale and purchase agreements for the relevant property. Rental income per property is taken from the above table, expressed as a percentage of the total rental income in the year to 31 March 2021. Specified lease rental amounts per annum and expiry dates are derived from management's prospective rental roll information as at 31 March 2019 (**Weighted Average Lease Term Schedule**), which itself is prepared based on management's summary of contractually agreed rental agreements in force at the time of preparation of this Prospective Financial Information.

i. *Main Highway* – The property is due to be acquired on 17 April 2019. Rental income for the year ended 31 March 2021 is 25.9% of total annual rent for the Fund. The most significant tenant is the Ministry of Justice generating rental income of $571,604 per annum, due to expire in June 2027. Digital Data Systems and the Ministry of Social Development lease the remainder of the property, with a combined total of $868,495 of rental income per annum. These leases are due to expire in the quarter ending 31 March 2020. The prospective financial information assumes these leases are renewed at market rates.

ii. *Victoria Street* – The property is due to be acquired on 17 April 2019. Rental income for the year ended 31 March 2021 is 10.4% of total annual rent for the Fund. The most significant lease is that with Kiwibank Limited at $184,993 per annum, due to expire in April 2025. No material leases are due to expire during the prospective period. A total of seven tenants have lease renewals due in the prospective periods to 31 March 2021, totalling $360,406 of annual rental income. The prospective financial information assumes these leases are renewed at market rates.

iii. *Short Street* - Rental income for the year ended 31 March 2021 is 23.1% of total annual rent for the Fund. No material leases are due to expire during the prospective period. The most significant lease is that with NZ Family Planning at $125,860 per annum, due to expire 31 March 2022. Eleven tenants have lease renewals due in the prospective periods to 31 March 2021, totalling $488,296 of annual net rental income. The prospective financial information assumes these leases are renewed at market rates.

iv. *Robert Street* – Rental income for the year ended 31 March 2021 is 14.4% of total annual rent for the Fund. The most significant lease is that with Animates NZ Holdings Limited at $182,203 per annum, due to expire in March 2023. The only lease due to expire during the prospective period is for a total of $50,696 per annum. The prospective financial information assumes this lease is renewed at market rates.

v. *Rockridge Avenue* – Rental income for the year ended 31 March 2021 is 14.6% of total annual rent for the Fund. The most significant lease is that with SGS New Zealand Limited at $277,981 per annum, due to expire in January 2022. No leases are due to expire in the prospective periods to 31 March 2021.

vi. *Durham Street* – Rental income for the year ended 31 March 2021 from the two Durham Street properties is 11.6% of total annual rent for the Fund. The most significant lease is that with the University of Waikato at $220,585 per annum, due to expire in March 2024. No material leases are due to expire during the

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prospective period. A total of four tenants have lease renewals due in the prospective periods to 31 March 2021, totalling $242,946 of annual rental income. The prospective financial information assumes these leases are renewed at market rates.

vii. *Amersham Way* - Rental income ceases beyond the year to 31 March 2019 as the property is a Held for Sale Property, subject to an unconditional sale and purchase agreement due to settle 28 March 2019.

The prospective occupancy for the overall Fund is as follows:

Date	**Occupancy Rate as at date**
Settlement date – 17 April 2019	96.5%
31 March 2020	97.3%
31 March 2021	97.3%

(d) **Distributions:** For each of the years ended 31 March 2019, 2020 and 2021 the gross distribution is expected to be 7.50 cents per unit annualised. All gross distributions are calculated as cents per issued Unit. The policy is to declare the distribution on the last day of the quarter with the payment on the 25th of the month following (or the next working day if a weekend or public holiday).

(e) **Receipts from tenants:** It has been assumed that all tenants will pay their monthly rent and operating expenses in the month of invoicing and property operating expense reimbursements in the month following invoicing.

(f) **Bank funding**: The funding facilities for bank borrowings will be $34,965,000 presuming the Fund raises $20,160,000 through the Offer. Funding from the Bank must not exceed 45.00% of the registered valuation of the investment properties in the portfolio, plus the purchase price of the acquisition properties, plus capital expenditure (LVR). The actual borrowings amount is forecast to be $32,165,402 on the date of settlement, a gearing ratio of 38.88%. The unused bank facility will be drawn down to fund capital expenditure projects as required.

(g) **Bank interest:** The Fund has received a formal offer of funding from ASB to help fund the purchase of the Acquisition Properties. This is in addition to the Fund's existing loan facilities which are on the same terms (adjusted for relevant amount and maturity date as appropriate).

The new offer received from ASB at the time of the registration of this offer document is 45% of LVR on a floating basis with a facility limit of $16,793,000.

A summary of the overall facilities are shown below:

Bank	**Ref**	**Amount**	**Maturity date**	**Extendable facility**
ASB	CM01	$5,872,000	01/04/2022	Extendable
ASB	CM02	$12,300,000	12/07/2021	Extendable
ASB	CM03	$16,793,000	17/04/2022	Extendable
Total		**$34,965,000**		

The interest rates are structured on a floating BKBM plus a bank margin. To hedge the risk on the floating nature of the interest rate the Fund expects to enter into various Swap agreements totaling $24,000,000 in notional value. The swap agreements will mature between December 2019 – April 2023.

The ASB loan facilities are extendable facilities. The facilities are reviewed annually and can be subsequently extended by a further 12 months (to effectively extend the maturity date by a further year).

The new ASB loan facility commencing 17 April 2019 is comparable to the existing facilities. To hedge the interest rate risk the Fund will enter into a swap agreement for $6,000,000 for a four year term commencing 17 April 2019 and expiring 14 April 2023.

The Fund may enter into further swap agreements to fix the interest rate for all of the Fund's debt. The prospective effective average interest rate presumed in the prospective financial information is 4.65% for the period until 31 March 2020, increasing to 4.75% for the year to 31 March 2021 (interest rates may vary on the date of settlement and thereafter).

The ASB offer is subject to variation at the time of the loan being drawn, and assumes the conditions in the offer are fulfilled.

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

i. No principal repayments are expected 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 are not available to fund such expenditure.

The ASB loans will be secured by first registered mortgage over the Portfolio Properties and a general security agreement over all present and future acquired assets of the Fund.

(h) **Management fees:** The Manager charges fees including general management fees, performance fees and property project fees:

- *Management fees*: 2.00% of the gross annual rental of investment property assets in the Fund, and an annual asset management fee of 0.50% of the carrying value of the investment property assets in the Fund.

- *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 plus 6%. Performance is measured by the annual capital and income returns to Unitholders 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.

- *Property Project fee*: An acquisition fee of 1.00% of the acquisition price of investment property has been included in the year ending 31 March 2020 and a disposal fee of 1.00% of the sales price of investment property has been included in the year ending 31 March 2019. Included in the value of investment property are Property Project Fees as follows:

	2019	2020	2021
Acquisition Fees	121,500	307,693	-
Disposal Fees	50,000	-	-
Other Property Project Fees	106,470	94,970	56,500
Total Property Project Fees	**277,970**	**402,663**	**56,600**

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(i) **Capital expenditure:** Budgeted capital expenditure is summarised below, including the Other Property Project Fees.

	2019	2020	2021
Total Capital Expenditure	2,235,874	1,994,370	1,186,500

Details about the proposed expenditure are set out below:

1) In the year to 31 March 2019 the majority of expenditure has already been incurred based on actual results to 31 December 2018. Of the annual amount for this period, $931,493 relates to properties already disposed of. Further forecast costs in the period to 31 March 2019 include:
   a) Robert Street: $264,000 of expenditure is forecast in the financial year ending 31 March 2019 related to tenancy fit-out. The budget is based on initial contractor pricing (non-binding) and are the Manager's best estimates. A fixed price contract will be entered into prior to commencement of all works.
   b) 143 Durham Street: $525,000 of expenditure is forecast in the financial year ending 31 March 2019 related to tenancy fit-out. The budget is based on initial contractor pricing (non-binding) and are the Manager's best estimates. A fixed price contract will be entered into prior to commencement of all works.

2) In the financial year ending 31 March 2020 expenditure relates to:
   a) Main Highway: $1,259,000 of expenditure in the financial year ending 31 March 2020, related to seismic upgrades, required landlords work associated with the Ministry of Justice tenancy, and general capital expenditure. The budget is based on initial contractor pricing (non-binding) for the seismic upgrades ($350,000), estimates of contractual commitments to the Ministry of Justice regarding the landlords works ($500,000), and the Manager's estimates for the remaining expenditure identified with a general allowance for capital expenditure ($409,000). A fixed price contract will be entered into prior to commencement of all works.
   b) 143 Durham Street: $160,000 of expenditure is forecast in the financial year ending 31 March 2020 related to tenancy fit-out plus general capital expenditure. The budget is based on the Manager's estimates for both the tenancy fit-out ($110,000), plus remaining expenditure identified with a general allowance for capital expenditure ($50,000). A fixed price contract will be entered into prior to commencement of all works.
   c) Rockridge Avenue: $250,000 for expenditure in the financial year ending 31 March 2020 related to tenancy fit-out plus general capital expenditure. The budget is based on the Manager's estimates for both the tenancy fit-out ($200,000), plus remaining expenditure identified with a general allowance for capital expenditure ($50,000). A fixed price contract will be entered into prior to commencement of all works.

3) The remaining budgeted capital expenditure during the prospective financial periods will be used for general capital expenditure across the Portfolio Properties.

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

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

b) a level of contingency based on what the Manager considers to be reasonable for projects of a similar nature;

c) 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 and that where the costs of fit out is greater than the what is contractually agreed, this will likely be reflected in increased rental income from the tenant.

(j) **Fair Value:** It has been assumed there will be no revaluation movement on Investment Properties beyond 31 March 2019 as future gains or losses cannot be reliably predicted. It has been assumed that the fair value of the Investment Properties is equal to registered valuations obtained across the period January 2019 to March 2019, plus all subsequent capital expenditure from 1 April 2019 (or acquisition value plus subsequent capital expenditure from acquisition for the Acquisition Properties).

The valuation of investment property as at 31 March 2019 includes the following information derived from independent valuation reports (effectively expressed after prospective capital expenditure to 31 March 2019):

Property	Valuer	Valuation date	Valuation amount
5 Short Street	Aim Valuation	23/01/2019	$18,150,000
2 Robert Street	Aim Valuation	23/01/2019	$10,475,000
8 Rockridge Avenue	Aim Valuation	23/01/2019	$12,200,000
127 Durham Street	Preston Rowe Paterson	05/02/2019	$3,275,000
143 Durham Street	Preston Rowe Paterson	05/02/2019	$6,900,000
			$51,000,000

Where relevant acquisition value for Acquisition Properties is derived directly from unconditional sale and purchase agreements for each respective property. There is currently no uncertainty in relation to these purchase prices, provided final completion of the purchases occurs on 17 April 2019 in line with the terms of the sale and purchase agreements. A summary of forecast purchase prices is included below:

Property	Settlement Date	Purchase price excluding capital expenditure
65B Main Highway	17/04/2019	$21,743,000
410 Victoria Street and 12 Alma Street	17/04/2019	$8,100,000

(k) **Regulatory Environment:** The Prospective Financial Statements have been prepared on the assumptions that there will be no material changes in the economic environment, legal requirements or the current tax regulations.

(l) **Brokerage:** The Fund will pay brokerage of $403,200 plus GST (assuming 18,000,000 Units are issued under the Offer). This is paid to the Manager and Property Managers Group's contracted sales team and third-party referring agents, based on 2.00% of the total funds raised.

(m) **Related party transactions:** The Fund's related parties include the Manager, the Supervisor, members of key management personnel of the Manager and Supervisor. The Fund is further related to PMG Capital Fund Limited, as Scott McKenzie and Denis McMahon are directors of both PMG Capital Fund Limited and the Manager. Denis is also a shareholder of PMG Capital Fund Limited.

The Manager and Supervisor are entitled to recover fees and expenses from the Fund. It is expected that all historic operating expenditure transactions by nature will continue to be incurred.

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The Manager intends to lease from the Fund office space and parking space at 5 Short Street totalling $44,729 per annum and expiring 30 September 2019, and further to lease office space and parking space at 143 Durham Street totalling $84,462 per annum expiring 31 March 2025. The Manager has certified such transactions and notified the Supervisor of these transactions.

One of the Acquisition Properties at Victoria Street is to be purchased from PMG Capital Fund Limited, the purchase price to be based on an arm's length valuation with a related party certificate filed with the Supervisor. PMG Capital Fund Limited has also funded the deposit for the second Acquisition Property, Main Highway. A fee of 5% of the deposit amount will be paid on settlement and is considered to be an arm's length transaction on normal commercial terms. PMG Capital Fund Limited has further entered into a sub arrangement to underwrite part of the current capital raise. This is on the same terms as other underwriters.

The Directors of the Manager may invest in the Fund on the same basis as any other investor. It is the intention of Nigel Lowe (Director, Shareholder and CFO of the Manager) and Matt McHardy (Shareholder of the Manager) to purchase Units in the Fund, from which they will be entitled to distributions, on the same terms and conditions as any other Unitholder or potential Unitholder. Directors of the Manager intend to invest in the Fund. Their investment will be on the same terms and conditions as other investors.

(n) **Prospective Sale:** As at the date of this prospective financial information, the Directors of the Manager are committed to selling the Amersham Way property in an unconditional sale and purchase agreement due to settle 28 March 2019. The prospective financial information has been prepared on the basis that Amersham Way has been disposed of as at this date.

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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 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 years ended 31 March 2019, 2020 and 2021.

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 of the Manager may take.

Capital Expenditure - Total capital expenditure is subject to variation in both timing and value. The sensitivity results below are based on an increase/decrease of $250,000 in capital expenditure in each period.

Rental Income Risk: Exposure to rental income risk is in the normal course of the Fund's business. The sensitivity result below is based on a rental increase/decrease of $500,000 per annum in the prospective years due to variation in lease renewals, new leases or tenant defaults. The impact on net profit will also have an impact on the Manager's Performance Fee, including within Administration Costs.

Interest Rate Risk - Exposure to interest rate risk is in the normal course of the Fund's business. The sensitivity results below are based on a 50 basis points shift (bps) in the interest rate from the assumed rates for prospective periods (0.5% rate movement).

Market value of investment property: The 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 of time, 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. The impact on net profit will also have an impact on the Manager's Performance Fee, including within Administration Costs. The sensitivity results below are based on increasing / (decreasing) assumed fair value as at 31 March 2019 by 5% in each of the years 31 March 2019, 31 March 2020 and 31 March 2021 in isolation.

PMG Direct Office Fund
Supplementary Information – Prospective Financial Information
Offer Number OFR12588

Sensitivity	Increase/ (Decrease)	Measure impacted	FY2019		FY2020		FY 2021	
			Increase	Decrease	Increase	Decrease	Increase	Decrease
Capital expenditure	$250,000	Finance Expense	11,625	(11,625)	11,625	(11,625)	11,875	(11,875)
		Fund Management fees	1,250	(1,250)	1,250	(1,250)	1,250	(1,250)
		Net Profit	(12,875)	12,875	(12,875)	12,875	(13,125)	13,125
		Cash and Cash Equivalents	(12,875)	12,875	(12,875)	12,875	(13,125)	13,125
		Borrowings	250,000	(250,000)	250,000	(250,000)	250,000	(250,000)
		Investment Property Value	250,000	(250,000)	250,000	(250,000)	250,000	(250,000)
Rental Income Risk	$500,000	Revenue	500,000	(500,000)	500,000	(500,000)	500,000	(500,000)
		Property Management Fee	7,500	(7,500)	7,500	(7,500)	7,500	(7,500)
		Administration Fees	107,123	(56,613)	-	-	-	-
		Finance Expense	(18,794)	21,257	(24,018)	24,018	(24,560)	24,560
		Net Profit	404,171	(457,144)	516,518	(516,518)	517,060	(517,060)
		Borrowings	(404,171)	457,144	(516,518)	516,518	(517,060)	517,060
Interest Rate Risk	50bps/(50bps)	Finance Expense	99,362	(99,362)	163,527	(163,527)	168,777	(168,777)
		Net Profit	(99,362)	99,362	(163,527)	163,527	(168,777)	168,777
		Cash and Cash Equivalents	(99,362)	99,362	(163,527)	163,527	(168,777)	168,777
Market value of investment property	5%/(5%)	Fair value movement	2,550,000	(2,550,000)	4,158,505	(4,158,505)	4,215,005	(4,215,005)
		Fund Management fees	12,750	(12,750)	20,793	(20,793)	21,075	(21,075)
		Administration Fees	558,250	(56,613)	400,629	-	764,244	-
		Finance Expense	27,846	(3,383)	20,552	(1,014)	39,163	(1,051)
		Net Profit	1,951,154	(2,477,254)	3,716,531	(4,136,698)	3,390,523	(4,192,879)
		Borrowings	598,846	(72,746)	400,629	(21,807)	824,482	(22,126)
		Investment Property Value	2,550,000	(2,550,000)	4,158,505	(4,158,505)	4,215,005	(4,215,005)

CROWE HORWATH NEW ZEALAND

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INDEPENDENT ASSURANCE REPORT ON THE PROSPECTIVE FINANCIAL STATEMENTS OF PMG DIRECT OFFICE FUND ("THE FUND")

To the Directors of Property Managers Limited - Manager of PMG Direct Office Fund

We have performed a reasonable assurance engagement in respect of the Fund's prospective financial statements, comprising the prospective statement of financial position, prospective statement of comprehensive income, prospective statement of changes in equity and the prospective statement of cash flows of the Fund, together with their related assumptions, accounting policies and other explanatory information as set out on pages 1 to 22 for the years ending 31 March 2019, 31 March 2020 and 31 March 2021.

This report is prepared for inclusion on the Disclose Register in conjunction with the prospective financial statements and for no other purpose.

Directors' responsibilities

The directors of Property Managers Limited, Manager and Offeror of the Fund, are responsible for the preparation and presentation of the prospective financial statements in accordance with FRS-42 *Prospective Financial Statements*, including the assumptions upon which they are based. This includes responsibility for such internal controls as the directors of the Manager determine are necessary to enable the preparation of the prospective financial statements that is free of material misstatement, whether due to fraud or error.

Our Responsibilities

We are responsible for expressing an opinion on the Fund's prospective financial statements for the years ending 31 March 2019, 31 March 2020 and 31 March 2021. We conducted our procedures in accordance with International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Revised)* ("ISAE (NZ) 3000 (Revised)") issued by the External Reporting Board. We also complied with the requirements of Professional and Ethical Standard 1 (Revised) and Professional and Ethical Standard 3 (Amending).

Our engagement was conducted to provide reasonable assurance that the prospective financial statements:

- so far as the accounting policies and calculations are concerned have been compiled, in all material respects, in accordance with FRS-42 Prospective Financial Statements (FRS-42) issued by the XRB;
- have been properly compiled on the basis of the Offeror's assumptions; and
- have been presented on a basis consistent with the accounting policies intending to be adopted by the Fund.

Scope of our procedures

In order to achieve reasonable assurance, ISAE (NZ) 3000 (Revised) requires that we:

- Identify and assess the risk of material misstatements (whether due to fraud or error) within the prospective financial statements; and

- Design and perform procedures to respond to the assessed risks of material misstatements to support our conclusion.

In making those risk assessments, we have considered internal controls relevant to the preparation and presentation of the prospective financial statements in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion as to the effectiveness of the internal control over the preparation and presentation of the prospective financial statements.

Our procedures included the following:

- Understanding the processes used in preparing the prospective financial statements;
- Performing procedures to ensure the prospective financial statements were compiled in accordance with the Offeror's assumptions and the stated accounting policies; and
- Consideration of the overall presentation of the prospective financial statements, including the assumptions and accounting policies, in accordance with the requirements of FRS-42 *Prospective Financial Statements.*

Prospective financial statements relate to events and actions that have not yet occurred and may not occur. Actual results during the prospective periods may vary materially from the prospective financial statements, as it is often the case that some events and circumstances do not occur as expected, or are not anticipated. We do not confirm, guarantee or express an opinion as to whether the actual results will approximate those included in the prospective financial statements.

Independence

We have no other relationship with, or interest in, the Offeror and Fund other than in our capacity as independent assurance providers.

Opinion on the prospective financial statements

In our opinion, the prospective financial statements, set out on pages 1 to 22 for the years ending 31 March 2019, 31 March 2020 and 31 March 2021, have been:

- compiled, in all material respects, in accordance with FRS-42 Prospective Financial Statements (FRS-42);
- properly compiled on the basis of the Offeror's assumptions; and
- presented on a basis consistent with the accounting policies as set out on pages 7 to 22 which are intending to be adopted by the Fund.

Restriction on use

This report has been prepared for the directors of Property Managers Limited. We disclaim any assumption of responsibility for any reliance on this report or the amounts included in the prospective financial statements for any purpose other than that for which they were prepared and to any other party other than the directors of Property Managers Limited.

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS

8 March 2019