

PROSPECTIVE FINANCIAL INFORMATION RELATING TO AN OFFER OF SHARES IN PACIFIC PROPERTY FUND LIMITED

Issuer: Pacific Property Fund Limited
Related to Offer: OFR13358

Basis of preparation

The prospective financial information included below is for the reporting entity Pacific Property Fund Limited (the **Fund**), a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993. The Prospective Financial Statements are for the Fund, which has no subsidiaries or other group members. The Fund is principally involved in the ownership and management of investment property in New Zealand. The Fund was incorporated on 26 June 2013.

The Fund is offering investors between 34,090,000 shares (the **Minimum Equity Raise**) and 64,400,000 shares (the **Maximum Equity Raise**) in the Fund at \$1.32 each (the **Offer**) and will not accept subscriptions above the **Maximum Equity Raise**. The Prospective Financial Statements has been prepared on the assumption that 49,250,000 shares at \$1.32 per share are issued from the Offer on 31 August 2022, with investors holding one or more parcels of 199,820,000 shares from 1 April 2022 to 31 August 2022, and one or more parcels of 249,070,000 shares from 1 September 2022 to 31 March 2024. This broadly represents the mid-point between the Minimum Equity Raise and the Maximum Equity Raise.

The Fund is making the Offer to raise funds to allow the Fund to acquire three properties (the **Acquisition Properties**), pay the costs associated with the issue of shares and the acquisition of the Acquisition Properties, and surplus funds initially utilised to reduce the Fund's bank borrowings. The Product Disclosure Statement (**PDS**) for the Offer dated on or around 22 July 2022 can be found at www.business.govt.nz/disclose by clicking "search for an offer" and searching for "Pacific Property Fund Limited".

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 Fund on 22 July 2022 for use in the PDS and not for any other purpose. The Fund is responsible for the Prospective Financial Statements including the assumptions underlying the Prospective Financial Statements and all other required disclosures.

The Prospective Financial Statements for the Fund, 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 Fund and are based on events and conditions existing as at the date of the PDS. The Directors of the Fund have given due care and attention to the preparation of the Prospective Financial Statements, including the underlying assumptions. These assumptions should be read in conjunction with the sensitivity analysis on page 23-25 of the Prospective Financial Statements, the risks set out in the PDS at Section 8 *Risks to the Fund's Business and Plan*, and the Fund's accounting policies, which can be found in the section entitled Statement of Accounting Policies below.

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Basis of preparation (continued)

Prospective Financial Statements, by their nature, are inherently uncertain. The Prospective Financial Statements are a prediction of future events that cannot be assured. They involve risks and uncertainties, many of which are beyond the control of the Fund. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Further risks are set out in the PDS at Section 8 *Risks to the Fund's Business and Plan*. 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 Fund 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 Fund, nor any other person give a guarantee or assurance that the Prospective Financial Statements presented will be achieved.

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

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

The accounting policies assumed in the Prospective Financial Statements reflect the policies currently adopted by the Fund in the annual financial statements of the Fund for the year to 31 March 2022, which are also expected to be adopted by the Fund 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

	2023	2024
	\$	\$
Revenue		
Rental income from investment properties	26,943,000	28,588,000
Property operating expenses recovered	4,891,000	5,096,000
Total revenue	31,834,000	33,684,000
Less expenses		
Property operating expenses	(5,021,000)	(5,124,000)
Property & Fund management fees	(2,765,000)	(2,880,000)
Audit fees	(95,000)	(102,000)
Valuation Fees	(157,000)	(176,000)
Other overhead expenses	(767,000)	(810,000)
Total expenses	(8,805,000)	(9,092,000)
Operating Profit	23,029,000	24,592,000
Finance costs		
Finance Lease Income	29,000	25,000
Ground Lease Expense	(115,000)	(115,000)
Interest expense	(7,022,000)	(8,291,000)
Line fees	(290,000)	(424,000)
Net change in fair value of derivatives	718,000	-
Net financing costs	(6,680,000)	(8,805,000)
Unrealised gain on value of investment property	430,000	-
Profit before income tax	16,779,000	15,787,000
Income tax expense	-	-
Net profit for the year	16,779,000	15,787,000
Other comprehensive income net of tax	-	-
Total comprehensive income for the year	16,779,000	15,787,000

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

	Issued Shares \$	Retained Earnings \$	Total Equity \$
Balance as at 1 April 2022	205,287,000	56,656,000	261,943,000
Net profit for the year and total comprehensive income	-	16,779,000	16,779,000
Transactions with investors in their capacity as investors:			
Issuance of shares	65,010,000	-	65,010,000
Share issue transaction costs	(2,915,000)	-	(2,915,000)
Distributions to investors	-	(15,999,000)	(15,999,000)
Balance at 31 March 2023	267,382,000	57,436,000	324,818,000
Balance as at 1 April 2023	267,382,000	57,436,000	324,818,000
Net profit for the year and total comprehensive income	-	15,787,000	15,787,000
Transactions with investors in their capacity as investors:			
Distributions to investors	-	(17,434,000)	(17,434,000)
Balance at 31 March 2024	267,382,000	55,789,000	323,171,000

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PROSPECTIVE STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH

	2023	2024
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	206,000	79,000
Trade and other receivables	1,403,000	1,405,000
Derivative financial asset	5,545,000	5,545,000
Lease Receivable	33,000	33,000
	7,187,000	7,062,000
Non-current assets		
Investment property	480,384,000	482,331,000
Right of Use Asset	1,900,000	1,900,000
Other fixed assets	3,000	3,000
Lease Adjustments	2,416,000	2,937,000
Lease Receivable	207,000	175,000
	484,910,000	487,346,000
Total Assets	492,097,000	494,408,000
LIABILITIES		
Current liabilities		
Trade and other payables	1,632,000	1,578,000
Distribution payable	1,453,000	1,453,000
Other current liabilities	190,000	208,000
	3,275,000	3,239,000
Non-current liabilities		
Secured bank borrowings	162,082,000	166,075,000
Lease Liabilities	1,922,000	1,923,000
	164,004,000	167,998,000
Total Liabilities	167,279,000	171,237,000
Total Equity	324,818,000	323,171,000

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PROSPECTIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDING 31 MARCH

	2023 \$	2024 \$
Cash Flows from operating activities		
Cash was provided from:		
Receipts from tenants	30,588,000	33,223,000
Net GST recovered	28,000	17,000
Cash was applied to:		
Payments to suppliers	(9,458,000)	(9,095,000)
Interest paid	(7,312,000)	(8,715,000)
Net cash inflow from operating activities	13,846,000	15,430,000
Cash Flows from investing activities		
Cash was applied to:		
Purchase of investment property and capital expenditure	(44,679,000)	(2,022,000)
Net cash inflow/(outflow) from investing activities	(44,679,000)	(2,022,000)
Cash Flows from financing activities		
Cash was provided from:		
Proceeds from issue of shares	65,010,000	-
Proceeds from borrowing	-	3,900,000
Cash was applied to:		
Repayment of borrowings	(15,200,000)	-
Share issue transaction costs	(2,915,000)	-
Distributions to investors	(18,042,000)	(17,435,000)
Net cash inflow/(outflow) from financing activities	28,853,000	(13,535,000)
Net increase/(decrease) in cash and cash equivalents	(1,980,000)	(127,000)
Cash and cash equivalents at the start of the financial year	2,186,000	206,000
Cash and cash equivalents at the end of the financial year	206,000	79,000

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Statement of accounting policies

- (a) **Functional and presentation currency:** The Prospective Financial Statements are presented in New Zealand dollars (\$), which is the Fund's functional currency, and are rounded to the nearest thousand dollars.
- (b) **Relevant preparation periods:** The prospective financial statements of the Fund have been prepared for the years ending 31 March 2023 and 31 March 2024. Actual management reporting results have been included for the two months to 31 May 2022, and prospective information for the subsequent period to 31 March 2023, and the year to 31 March 2024.

(c) **Financial instruments:**

Held at amortised cost

- **Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts.
- **Trade and Other Receivables:** Trade Receivables, which include lease receivables and prepaid expenses, are initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method, less any loss allowance. They are classified as loans and receivables. Trade Receivables are generally due for settlement within 30 days. The Fund applies 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.
- **Borrowings:** Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after balance date.
- **Lease Liabilities:** Lease Liabilities are initially recorded at the estimated present value of future minimum lease payments, and subsequently stated at amortised cost using the effective interest method with a finance charge included within the statement of comprehensive income. Lease liabilities are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Held at fair value through profit or loss

- **Trade and Other Payables:** These amounts are held at fair value and represent unsecured liabilities for goods and services provided to the Fund prior to the end of the financial period, which are usually paid within 30 days of recognition. The carrying amounts of Trade and Other Payables are invoiced amounts or amounts expected to be invoiced, assumed to be the same as their fair values due to their short-term nature.
- **Derivatives:** Derivatives consist of interest rate swaps that are only used for economic hedging purposes and not as speculative investments. The Fund has elected not to apply hedge accounting criteria to these instruments. As such, the interest rate swaps are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Statement of accounting policies (continued)

- (d) **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 ongoing capital expenditure, and subsequently remeasured annually at fair value based on the latest valuation undertaken in compliance with NZ IFRS 13 – Fair Value Measurement. Any gain or loss determined by these revaluations is included within the Statement of Comprehensive Income.

When an item of investment property is disposed of, any gain or loss is recognised in the Statement of Comprehensive Income and is calculated as the difference between the sale price and the carrying value of the property. Depreciation is not charged on investment properties for accounting purposes.

Given the inherent uncertainty of revaluation movements beyond those valuations held as at the date of this Prospective Financial Information, revaluations are only recorded up to the date of the latest valuations (or, for the Acquisition Properties, the date the property is forecast to be acquired), based on valuations held as at the date of this PDS. See assumptions, paragraph (i) for further details.

- (e) **Expenditure:**

i) Manager's fees: PMG Property Funds Management Limited (the **Manager**) charges the Fund for several types of fees:

Property and fund management fees: The Manager is entitled to a management fee equal to 0.50% of the total carrying value of the properties under management. The Manager is also entitled to a property management fee of 1.50% 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 and included within the Statement of Comprehensive Income when incurred by the Fund.

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

- a) On purchasing a property, an acquisition fee of 1.00% of the acquisition price of any investment (**Acquisition Fee**), with a minimum fee of \$150,000 per property.
- b) On disposal of a property held by the Fund, a fee equal to 1.00% of the sales price for the investment is also payable to the Manager (**Disposal Fee**).
- c) A project management fee of 5.0% of total development/project costs incurred for maintenance projects, which are budgeted to exceed \$100,000 or any project involving construction or refurbishment of a property (**Project Fee**).
- d) Any disbursements (such as legal and valuation costs) and other out of pocket costs reasonably incurred by the Manager in connection with the performance of its obligations and duties.

The Acquisition Fee and Project Fee are included within the carrying value of investment property in the Statement of Financial Position. The Disposal Fee is included within the Statement of Comprehensive Income when incurred by the Fund as part of a property disposal. Disbursements may be included in the carrying value of investment property (for an acquisition), share issuance costs (if related to an offer but not directly related to the property), or the Statement of Comprehensive Income, depending on the nature of the expenditure.

Termination fee: If the Manager is removed as Manager of the Fund, the Manager is entitled to a termination payment of 12 months of its management fees as set out in "Property and fund management fees" and "Property transaction fees" above.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Statement of accounting policies (continued)

- (f) **Leases:** At inception of a contract, the Fund assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Fund assesses whether:
- a) the contract involves the use of an identified asset
 - b) the Fund has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
 - c) the Fund has the right to direct the use of the asset.

As Lessor:

- **Operating Leases** – The Fund is a lessor in lease contracts in which it retains substantially all risks and ownership of the leased asset. Such leases are classified as operating leases. Assets leased to third parties under operating leases are included in investment property in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.
- **Finance Leases** – The Fund is a lessor in lease contracts in which it does not retain substantially all risks and ownership of the leased assets. Such leases are classified as finance leases (the Paerangi Finance Lease). Assets leased to third parties under finance leases are derecognised in the statement of financial position and a finance lease receivable is recognised for the net investment in the lease. Finance income is recognised by the Fund over the lease term using the effective interest rate method.

As Lessee: The Fund is a lessee in respect of a ground lease contract on the site of one property. The Fund recognises a right-of-use asset and a lease liability in relation to this lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the later of the commencement date and the accounting policy adoption date, plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently remeasured to fair value annually to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the later of the lease commencement date and the date of accounting policy adoption, discounted using the Fund's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Fund presents right-of-use assets within Investment Properties on the face of the statement of financial position, and lease liabilities on the face of the statement of financial position.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Statement of accounting policies (continued)

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

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

Rent - The Fund receives income from tenants under commercial leases which set-out the terms that the tenant must meet including any renewals of the lease and the rent and operating expenses that must be paid and any review of the rental amount.

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 they are earned.

Operating expense recoveries - The tenants also pay the Fund Operating Expenses. These are recoveries of expenses incurred by the Fund in relation to the properties. The tenants are charged a monthly amount towards these operating costs based on an annual budget for each property and have annual wash-up reconciliations provided by the Fund to settle any under or overcharges of actual costs incurred versus costs recharged. Operating Expense 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 tenants leases and the costs of the outgoings. There are no discounts provided or finance component in any of those costs so the transaction price is straight forward and easily allocated on a straight line basis.

The 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 IFRS 16 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 IFRS 16 Leases are because they are closely related to the lease of the building and the tenant doesn't 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 Revenue from Contracts with Customers are electricity, rubbish collection, cleaning, gardening services, management expenses and security expenses. This is because these are an additional service over and above the lease of rental space and so should be accounted for separate to the lease income.

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

- (h) **Finance costs:** All finance costs are expensed in the period in which they are incurred.
- (i) **Share Capital:** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.
- (j) **Distributions payable:** Distributions payable are recognised when declared during the financial year and no longer at the discretion of the Fund.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Statement of accounting policies (continued)

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

(l) **Income Tax:** As at 1 April 2016, the Fund elected to be a multi-rate Portfolio Investment Entity (PIE) for income tax purposes under the Income Tax Act 2007. As a result, the Fund itself is not liable for income tax from that date.

The Fund's taxable income is instead apportioned amongst its Shareholders based on the number of shares they hold, and their notified Prescribed Investor Rates (PIR). The Fund calculates and deducts tax based on each investor's notified PIR and pays the tax to the taxation authorities on behalf of the investor. Any PIE tax liabilities at the end of each year are included within distributions payable in the Statement of Financial Position, measured at the amount expected to be paid to the taxation authorities on behalf of the investors based on the investors' taxable income and their notified PIR.

(m) **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.

(n) **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 of the obligation can be made. 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.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Statement of accounting policies (continued)

- (o) **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.

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

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions

The principal assumptions on which the Prospective Financial Statements have been prepared are set out below. These assumptions should be read in conjunction with the risks set out in the PDS at Section 8 *Risks to the Fund's Business and Plan* and the sensitivity analysis shown further below in this section.

- (a) **Offer settlement and Acquisition Properties:** The Offer is expected to settle on 31 August 2022. On the same day, the Fund intends to settle the acquisition of the Acquisition Properties. The Prospective Financial Statements only include information related to the Acquisition Properties from the estimated acquisition date. The acquisition date and purchase price for the Acquisition Properties are derived from the sale and purchase agreements for the Acquisition Properties. The purchase price of the Ruffell Road Property will be adjusted in accordance with the sale and purchase agreement once construction of a building on the site of that property is completed by the vendor and sold across to the Fund. The acquisition cost will be based on the actual cost of construction, currently forecast to complete at 31 March 2023 totalling \$5,542,000.
- (b) **Offer costs (including property acquisition costs):** It is assumed that 49,250,000 shares at \$1.32 each will be issued on 31 August 2022. In this case, for the Offer, the Fund has estimated approximately \$3,436,000 of costs associated with the Offer. This includes \$2,915,000 of issue costs to be accounted for within equity, the remainder of acquisition costs accounted for within Investment Property. Issue and property acquisition costs include a property acquisition fee, underwriting commitment fee, contribution fee, legal and other due diligence fees, marketing costs and bank fees – amongst other expenses related to the offer.
- (c) **Rental Income:** The Prospective Financial Statements assume annual rental income will be received in accordance with current signed lease agreements for each currently leased space. Several further assumptions are made in connection with the timing of vacancy, leasing up and rent reviews during the forecast period based on the expectations of the Fund.

Property operating expenses are generally recoverable to the extent a property is tenanted, with some exceptions specified in gross or semi-net leases. Approximately 80% and 89% of total property operating expenses and property management fees (excluding fund management fees) recorded in the statement of comprehensive income are expected to be recoverable from tenants in the years ending 31 March 2023 and 31 March 2024 respectively.

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

As at date	Occupancy Rate
1 April 2022	99.1%
31 August 2022 (Settlement Date)	99.7%
31 March 2023	99.9%
31 March 2024	99.5%

During the prospective periods presented, there are existing lease agreements expiring without certainty of renewal at the date of this document representing net rental income (base passing rental, excluding operating expenditure recoverable, lease incentives, and fixed rental growth adjustments) totalling \$1,687,000 (6.1% of forecast net rental income at Settlement Date, annualised). These leases are generally expected to renew, or new leases signed in relation to the occupied space, near their respective expiry dates. Whilst the Fund aims to lease up space before it falls vacant, the prospective periods do allow for some temporary, immaterial levels of vacancy prior to leasing up some spaces. See further notes below by property.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions (continued)

- (c) **Rental Income (continued):** Net rental income by property in the prospective periods has been summarised below, exclusive of recoverable operating expenses, incentives, and fixed rental growth adjustments. The impact of incentives and fixed rental growth adjustments on rental income are separately disclosed below the table. Net rental income is only summarised from the date of acquisition where appropriate by property.

	2023	2024
Seaview Road Property	3,071,000	3,194,000
Hutt Park Road Property	1,478,000	1,523,000
Spring Street Property	781,000	803,000
Alderman Drive Property	933,000	950,000
Braeburn Drive Property	516,000	527,000
Paerangi Place Property	604,000	619,000
Vickery Street Property	1,382,000	1,388,000
Truman Lane Property	1,310,000	1,313,000
901 Arthur Porter Drive Property	1,065,000	1,081,000
Robert Street Property	955,000	973,000
El Prado Drive Property	2,904,000	2,918,000
Druces Road Property	691,000	753,000
Dominion Road Property	1,252,000	1,183,000
Link Drive Property	2,107,000	2,149,000
Eastern Hutt Road Property	695,000	693,000
Langley Road Property	562,000	620,000
Distribution Lane Property	375,000	381,000
Victoria Street Property	3,227,000	3,397,000
Gloucester Street Property	1,466,000	1,460,000
400 Arthur Porter Drive Property	367,000	377,000
Ruffell Road Property	473,000	1,134,000
21 Rewa Rewa Road Property	289,000	505,000
46-50 Rewa Rewa Road Property	429,000	748,000
Net Rental Income Sub-Total	26,932,000	28,689,000
Net impact of incentives and fixed rental growth adjustments	10,000	(101,000)
Rental income per Statement of Comprehensive Income	26,943,000	28,588,000

Below is a summary of net rental income by key properties, including any key tenancies and key assumptions that will impact revenue during the prospective financial periods ending 31 March 2024.

- i. **Acquisition Properties** – Three properties due to be acquired 31 August 2022, with additional rent payable from 1 April 2023 following completion of an additional building at one of the properties. Net rental income from these properties for the year ending 31 March 2024 is forecast to be 8.3% of net rental income from Investment Properties. A sole tenant accounts for the rental income from lease of these properties. This tenant, Keith Andrews Trucks, is considered material and expected to generate net rental income of \$1,191,000 in the year to 31 March 2023 and \$2,387,000 in the year to 31 March 2024, with a lease expiry of August 2037. The lease is a net lease, meaning operating expenditure is generally recoverable. There is no forecast vacancy in the prospective periods.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions (continued)

(c) Rental Income (continued):

- ii. **Victoria Street Property** – Net rental income for the year ending 31 March 2024 is forecast to be 11.8% of net rental income from Investment Properties. Nine tenants account for rental income from lease of the property, with no tenant in isolation being considered material to the Fund. There is no forecast vacancy in the prospective periods.
- iii. **Seaview Road Property** – Net rental income for the year ending 31 March 2024 is forecast to be 11.1% of net rental income from Investment Properties. Seven tenants account for rental income from lease of the property, with no tenant in isolation being considered material to the Fund. There is no forecast vacancy in the prospective periods.
- iv. **El Prado Drive Property** – Net rental income for the year ending 31 March 2024 is forecast to be 10.2% of net rental income from Investment Properties. A sole tenant accounts for the rental income from lease of the property. This tenant, Ezibuy, is considered material and expected to generate net rental income of \$2,918,000 in the year to 31 March 2024, with a lease expiry of February 2026. There is no forecast vacancy in the prospective periods.
- v. **Link Drive Property** – Net rental income for the year ending 31 March 2024 is forecast to be 7.5% of net rental income from Investment Properties. Four tenants account for rental income from lease of the property, with no tenant in isolation being considered material to the Fund. There is no forecast vacancy in the prospective periods. Coda Group lease 6,200 sqm of space until July 2023. The tenant has physically vacated the premises and the Fund is actively seeking a new tenant in advance of the existing lease expiring.
- vi. **Hutt Park Road Property** – Net rental income for the year ending 31 March 2024 is forecast to be 5.3% of net rental income from Investment Properties. Three tenants account for rental income from lease of the property, with no tenant in isolation being considered material to the Fund. There is no forecast vacancy in the prospective periods.
- vii. **Gloucester Street Property** – Net rental income for the year ending 31 March 2024 is forecast to be 5.1% of net rental income from Investment Properties. Four tenants account for rental income from lease of the property, with no tenant in isolation being considered material to the Fund. There is no forecast vacancy in the prospective periods.
- viii. **Truman Lane Property** – Net rental income for the year ending 31 March 2024 is forecast to be 4.6% of net rental income from Investment Properties. A sole tenant accounts for the rental income from lease of the property. This tenant, Tui Products, is considered material and expected to generate net rental income of \$1,313,000 in the year to 31 March 2024, with a lease expiry of April 2034. There is no forecast vacancy in the prospective periods.
- ix. **Vickery Street Property** – Net rental income for the year ending 31 March 2024 is forecast to be 4.8% of net rental income from Investment Properties. A sole tenant accounts for the rental income from lease of the property. This tenant, Alto Packaging, is considered material and expected to generate net rental income of \$1,388,000 in the year to 31 March 2024, with a lease expiry of February 2027. There is no forecast vacancy in the prospective periods.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions (continued)

- (d) **Gross Distribution:** For the prospective period to 31 March 2024, distributions of 7.00 cents per share annualised are forecast (with new shareholders allotted shares on 31 August 2022 eligible for distributions for the period from 1 September 2022). All gross distributions are calculated as cents per share. The policy is to declare the distribution on the last day of the month with payment on the 25th of the month following (or the next working day if a weekend or public holiday). This is expected to change from a quarterly distribution in all quarters prior to the settlement of the Offer.
- (e) **Receipts from tenants and payments to suppliers:** It has been assumed that virtually all tenants pay their monthly rent and operating expenses in the month of invoicing. The Fund has been assumed to pay most expenses in the month following invoicing.
- (f) **Cash and Borrowings:** It is assumed no cash on hand is earning interest income.

The Fund has a syndicated funding arrangement with five banking counterparties (the **Banking Syndicate**). The funding facilities from by the Banking Syndicate to the Fund totalled \$182,040,000 at 1 April 2022, and assume the Fund continues to provide first mortgage security in relation to all properties owned by the Fund (amongst other requirements).

Total bank borrowings drawn over time will depend on the total equity the Fund raises through the Offer, how much debt is repaid because of the Offer, and what subsequent drawdowns the Fund may make on bank borrowings to fund capital expenditure, working capital, and additional any subsequent acquisition opportunities that may arise (amongst other factors). Assuming 49,250,000 shares are issued from the Offer, and no additional Property Investments beyond the Acquisition Properties are purchased, the total bank borrowings drawn at Settlement Date will be \$148,040,000 (30.7% of the Fund's total assets, or 31.4% of the latest independent valuation report held in relation to each property in the Property Portfolio). Bank borrowings are forecast to increase in the years ending 31 March 2023 and 31 March 2024 to \$162,340,000 and \$166,240,000 respectively (being 33.0% and 33.6% of the Fund's total assets respectively, or 34.1% and 34.9% of the latest independent valuation report held in relation to each property in the Property Portfolio respectively).

Unused revolving credit bank facility headroom has been presumed to be unused but may be used in future in conjunction with any surplus cash on hand to support either future Property Investments, or, future capital expenditure requirements of the Fund. Additional equity may also be accepted above the forecast equity raise amount to support such activity or reduce the Fund's borrowings. The Fund may also seek to increase its bank borrowing facilities to support future Property Investments, or future capital expenditure requirements of the Fund at the relevant time, in addition to utilising any surplus cash.

The expected funding facilities following settlement of the Offer summarised below, noting that Tranche A was previously \$48,000,000, with \$28,000,000 expected to convert to a revolving credit facility on 31 August 2022 with the same facility expiry date.

Facility Name	Facility Type	Facility Expiry	Facility Limit	Drawn as-at 31 March	
				2023	2024
Revolve 1	Revolving Credit	December 2024	\$10,000,000	\$10,000,000	\$10,000,000
Revolve 2	Revolving Credit	December 2024	\$28,000,000	\$8,300,000	\$12,200,000
Tranche A	Term Loan	December 2024	\$20,000,000	\$20,000,000	\$20,000,000
Tranche B	Term Loan	December 2025	\$55,000,000	\$55,000,000	\$55,000,000
Tranche C	Term Loan	April 2026	\$8,000,000	\$8,000,000	\$8,000,000
Tranche D	Term Loan	April 2026	\$10,200,000	\$10,200,000	\$10,200,000
Tranche E	Term Loan	April 2026	\$36,840,000	\$36,840,000	\$36,840,000
Tranche F	Term Loan	November 2025	\$9,000,000	\$9,000,000	\$9,000,000
Tranche G	Term Loan	November 2025	\$5,000,000	\$5,000,000	\$5,000,000
Total			\$182,040,000	\$162,340,000	\$166,240,000

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions (continued)

(f) Cash and Borrowings (continued):

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

The funding facilities with the Banking Syndicate presume all conditions associated with the agreements related to the Banking Syndicate facilities are fulfilled.

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

- i. No principal repayments are required during the term of the funding facilities.
- ii. No recourse to investors; and
- iii. Capital expenditure will be funded by the funding facilities to the extent that free cash flows, or cash flows from capital raising activities, are not available to fund such expenditure.

The funding facilities are to be always secured by first registered mortgages over each property within the Property Portfolio, and a general security agreement over all present and future acquired assets of the Fund.

(g) Bank interest and other bank fees: The interest rates associated with the facilities are primarily structured on a floating BKBM plus a bank margin fixed for the duration of the facility. To hedge the risk on the floating BKBM part of the interest rate, the Fund enters interest rate swap agreements. As at the date of the PDS, the Fund has entered swaps with a notional value of \$119,000,000. The swap agreements mature between December 2022 and April 2025.

The Fund currently intends to target entry into further swap agreements to fix the interest rate for 70% of the Fund's borrowings over time (with the expectation that this may vary with the range of 60% to 85% of the Fund's borrowings at a point in time). Coverage of bank borrowings by swap agreements at Settlement Date after debt is paid down is expected to be 80% of total borrowings drawn, reducing over time on swap maturity offset by the placement of additional swaps to 62% by 31 March 2024.

It is projected that the weighted average interest rate charged on all bank borrowings, including the effect of interest rate swap arrangements, will be 4.47% per annum for the year ending 31 March 2023 and 5.29% per annum for the year ending 31 March 2024. Revolving credit facilities incur a line fee charged on the total facility limit quarterly in arrears, which is included in the interest rates above and the total interest and finance charges in the prospective financial information. Interest rates are inherently subject to regular fluctuation, and at a point in time may vary.

Other costs outside of the prospective effective average interest rate above will be incurred in relation to the Banking Syndicate. These include:

- i. One-off establishment fees for establishing the Banking Syndicate
- ii. One-off fees associated with the establishment of new funding facilities
- iii. An annual Facility Agent Fee and Security Trustee Fee; and
- iv. An underwrite fee (charged on unutilised approved facility limits) and a ticking fee (charged on undrawn loan facility limits).

All one-off establishment fees are accounted for by amortising the fees over the initial number of years until maturity of the applicable facility. The carrying value is included as an offset within bank borrowings in the statement of financial position, given the accounting policy for measurement of borrowings under the amortised cost method.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions (continued)

- (h) **Manager's Fees:** The Manager expects to charge fees, including but not limited to property and asset management fees and property transaction fees, in accordance with accounting policy (e). No property disposal fees are forecast for the prospective periods presented.

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

	2023	2024
Acquisition Fees	\$385,000	-
Property Project Fees	\$283,000	\$93,000
Total Property Transaction Fees	\$668,000	\$93,000

- (i) **Capital expenditure:** Budgeted capital expenditure (excluding general property acquisition costs, and fees payable to the Manager for property acquisition and project management) is forecast as \$6,059,000 and \$1,854,000 for the years ending 31 March 2023 and 31 March 2024 respectively.

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

- i. estimates prepared by the Manager based on the Manager's historical experience in carrying out works of a similar nature;
- ii. a level of contingency or general allowance based on what the Manager considers to be reasonable for projects or properties of a similar nature;
- iii. in the case of tenancy fitouts, the Manager's best estimate, based on its experience, of the likely cost. Capital expenditure requirements for tenancy fitouts are dependent on the individual lease agreements of future tenants and are therefore difficult to predict in advance. However, it should be noted that fixed price contracts are agreed upon prior to the commencement of capital projects where possible and that where the cost of fit out is greater than what is contractually agreed, this will likely be reflected in increased rental income from the tenant.

- (j) **Investment Property, Derivatives and Fair Value:** The valuation of investment property includes the following information derived from independent valuation reports:

Property	Valuation Date	As-is Valuation
Seaview Road	31 March 2022	\$45,525,000
Hutt Park Road	31 March 2022	\$25,600,000
Spring Street	31 March 2022	\$12,975,000
Alderman Drive	31 March 2022	\$13,100,000
Braeburn Drive	31 March 2022	\$7,800,000
Paerangi Place	31 March 2022	\$12,200,000
Vickery Street	31 March 2022	\$22,400,000
Truman Lane	31 March 2022	\$17,550,000
Robert Street	31 March 2022	\$16,750,000
El Prado Drive	31 March 2022	\$42,800,000
Druces Road	31 March 2022	\$13,850,000
Dominion Road	31 March 2022	\$20,000,000
Link Drive	31 March 2022	\$33,500,000
Langley Road	31 March 2022	\$12,550,000
400 Arthur Porter Drive	31 March 2022	\$7,450,000
Eastern Hutt Road	31 March 2022	\$14,500,000
Distribution Lane	31 March 2022	\$7,500,000
Victoria Street	31 March 2022	\$60,000,000
Gloucester Street	31 March 2022	\$27,000,000

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

901 Arthur Porter Drive	31 March 2022	\$23,800,000
Ruffell Road	1 September 2022	\$14,550,000
21 Rewa Rewa Road	1 September 2022	\$8,050,000
46-50 Rewa Rewa Road	1 September 2022	\$9,400,000 + \$1,950,000
		\$470,800,000

The valuation reports for all properties consider a range of inputs and market evidence in forming an opinion on value. As a result of the potential impact of COVID-19 and current economic conditions, values may change more rapidly than usual and there may be a greater range around the assumption of market value than would normally be the case. Caution should be used when relying on past valuations at a later date.

For existing properties, it is assumed that their fair value at 31 March 2022 is equal to that of the latest independent valuation received noted above. Future values during the prospective financial periods presented are deemed to be this value, plus capital expenditure forecast for each property in the years ending 31 March 2023 and 31 March 2024 (including any capitalised Property Project Fees).

For acquisition properties, it is assumed that their fair value at acquisition date is equal to that of the latest independent valuation received noted above. Future values during the prospective financial periods presented are deemed to be this value, plus any purchase price adjustments and capital expenditure forecast for each property in the years ending 31 March 2023 and 31 March 2024 (including any acquisition fees and capitalised Property Project Fees).

Specifically, for the Ruffell Road Property, a warehouse extension is currently underway but is not expected to be completed and purchased by the Fund until 31 March 2023. The purchase of the extension will be by way of a purchase price adjustment that is based on the cost of construction. The as-is valuation of the property has been utilised in the fair valuation of the property at 31 August 2022, with the estimated purchase price adjustment on 31 March 2023 increasing the carrying value of the property subsequently. The current estimate of the valuation of the property once the extension is completed is \$19,600,000. However, as both the total cost of and timing for purchasing the warehouse extension is uncertain, and the expected completion date is at least eight months from the date of the Prospective Financial Information, no revaluation adjustments have been forecast at 31 March 2023 (which is in line with the treatment for all other properties at that date).

It has been assumed there will be no revaluation gains or losses in the fair value of the existing properties, and no revaluation gains or losses in the fair value of acquisition properties beyond those generated by the above as-is valuations and policy described above. Future gains or losses beyond this date cannot be reliably predicted.

Derivative financial instruments have been assumed to be fair valued at 31 May 2022 based on actual information known at that date. Future values during the prospective financial periods presented are deemed to be this value. It has been assumed there will be no revaluation gains or losses in the fair value of the derivative financial instruments beyond 31 May 2022 as future gains or losses beyond this date cannot be reliably predicted.

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions (continued)

(j) **Investment Property and Fair Value (continued):** A summary of the movement in the carrying value of investment property is summarised below.

	Carrying value	Adjustments	Valuation	Purchase price	Capitalisation of offer expenses	Other capitalised expenses	Fair value movement	Adjustments movement	Valuation	Adjustments	Carrying value
	31 March 2022			Movement during year					31 March 2023		
Seaview Road	\$44,889,000	\$636,000	\$45,525,000	-	-	\$1,789,000	-	-	\$47,315,000	(\$636,000)	\$46,678,000
Hutt Park Road	\$25,600,000	-	\$25,600,000	-	-	\$19,000	-	-	\$25,619,000	-	\$25,619,000
Spring Street	\$12,938,000	\$37,000	\$12,975,000	-	-	\$678,000	-	-	\$13,653,000	(\$37,000)	\$13,616,000
Alderman Drive	\$12,883,000	\$217,000	\$13,100,000	-	-	\$306,000	-	-	\$13,406,000	(\$217,000)	\$13,189,000
Braeburn Drive	\$7,800,000	-	\$7,800,000	-	-	\$70,000	-	-	\$7,870,000	-	\$7,870,000
Paerangi Place	\$11,408,000	\$792,000	\$12,200,000	-	-	\$26,000	-	-	\$12,226,000	(\$792,000)	\$11,434,000
Vickery Street	\$22,400,000	-	\$22,400,000	-	-	\$465,000	-	-	\$22,865,000	-	\$22,865,000
Truman Lane	\$17,550,000	-	\$17,550,000	-	-	\$26,000	-	-	\$17,576,000	-	\$17,576,000
Robert Street	\$16,750,000	-	\$16,750,000	-	-	\$79,000	-	-	\$16,829,000	-	\$16,829,000
El Prado Drive	\$42,800,000	-	\$42,800,000	-	-	\$46,000	-	-	\$42,846,000	-	\$42,846,000
Druces Road	\$13,609,000	\$241,000	\$13,850,000	-	-	\$70,000	-	-	\$13,920,000	(\$241,000)	\$13,679,000
Dominion Road	\$19,715,000	\$285,000	\$20,000,000	-	-	\$48,000	-	-	\$20,048,000	(\$285,000)	\$19,762,000
Link Drive	\$33,500,000	-	\$33,500,000	-	-	\$16,000	-	-	\$33,516,000	-	\$33,516,000
Langley Road	\$12,521,000	\$29,000	\$12,550,000	-	-	\$1,735,000	-	-	\$14,285,000	(\$29,000)	\$14,255,000
400 Arthur Porter Drive	\$7,420,000	\$30,000	\$7,450,000	-	-	\$66,000	-	-	\$7,516,000	(\$30,000)	\$7,486,000
Eastern Hutt Road	\$14,500,000	-	\$14,500,000	-	-	\$53,000	-	-	\$14,553,000	-	\$14,553,000
Distribution Lane	\$7,479,000	\$21,000	\$7,500,000	-	-	-	-	-	\$7,500,000	(\$21,000)	\$7,479,000
Victoria Street	\$59,990,000	\$10,000	\$60,000,000	-	-	\$184,000	-	-	\$60,184,000	(\$10,000)	\$60,174,000
Gloucester Street	\$27,000,000	-	\$27,000,000	-	-	\$501,000	-	-	\$27,501,000	-	\$27,501,000
901 Arthur Porter Drive	\$23,800,000	-	\$23,800,000	-	-	\$28,000	-	-	\$23,828,000	-	\$23,828,000
Ruffell Road	-	-	-	\$19,542,000	\$264,000	-	\$286,000	-	\$20,092,000	-	\$20,092,000
21 Rewa Rewa Road	-	-	-	\$7,867,000	\$106,000	\$64,000	\$77,000	-	\$8,114,000	-	\$8,114,000
46-50 Rewa Rewa Road	-	-	-	\$11,133,000	\$150,000	\$70,000	\$67,000	-	\$11,421,000	-	\$11,421,000
Total	\$434,550,000	\$2,300,000	\$436,850,000	\$38,542,000	\$520,000	\$6,342,000	\$430,000	-	\$482,684,000	(\$2,300,000)	\$480,384,000

Pacific Property Fund Limited
Supplementary Information for PDS dated on or around 22 July 2022
Prospective Financial Information
OFR13358

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

	Carrying value	Adjustments	Valuation	Purchase price	Capitalisation of offer expenses	Other capitalised expenses	Fair value movement	Adjustments movement	Valuation	Adjustments	Carrying value
	31 March 2023			Movement during year					31 March 2024		
Seaview Road	\$46,678,000	\$636,000	\$47,315,000	-	-	\$356,000	-	-	\$47,671,000	(\$636,000)	\$47,034,000
Hutt Park Road	\$25,619,000	-	\$25,619,000	-	-	\$25,000	-	-	\$25,643,000	-	\$25,643,000
Spring Street	\$13,616,000	\$37,000	\$13,653,000	-	-	\$196,000	-	-	\$13,849,000	(\$37,000)	\$13,812,000
Alderman Drive	\$13,189,000	\$217,000	\$13,406,000	-	-	\$135,000	-	-	\$13,542,000	(\$217,000)	\$13,325,000
Braeburn Drive	\$7,870,000	-	\$7,870,000	-	-	\$64,000	-	-	\$7,934,000	-	\$7,934,000
Paerangi Place	\$11,434,000	\$792,000	\$12,226,000	-	-	-	-	-	\$12,226,000	(\$792,000)	\$11,434,000
Vickery Street	\$22,865,000	-	\$22,865,000	-	-	\$166,000	-	-	\$23,031,000	-	\$23,031,000
Truman Lane	\$17,576,000	-	\$17,576,000	-	-	\$26,000	-	-	\$17,603,000	-	\$17,603,000
Robert Street	\$16,829,000	-	\$16,829,000	-	-	\$80,000	-	-	\$16,909,000	-	\$16,909,000
El Prado Drive	\$42,846,000	-	\$42,846,000	-	-	\$97,000	-	-	\$42,943,000	-	\$42,943,000
Druces Road	\$13,679,000	\$241,000	\$13,920,000	-	-	\$37,000	-	-	\$13,957,000	(\$241,000)	\$13,716,000
Dominion Road	\$19,762,000	\$285,000	\$20,048,000	-	-	\$278,000	-	-	\$20,326,000	(\$285,000)	\$20,041,000
Link Drive	\$33,516,000	-	\$33,516,000	-	-	\$11,000	-	-	\$33,526,000	-	\$33,526,000
Langley Road	\$14,255,000	\$29,000	\$14,285,000	-	-	-	-	-	\$14,285,000	(\$29,000)	\$14,255,000
400 Arthur Porter Drive	\$7,486,000	\$30,000	\$7,516,000	-	-	-	-	-	\$7,516,000	(\$30,000)	\$7,486,000
Eastern Hutt Road	\$14,553,000	-	\$14,553,000	-	-	-	-	-	\$14,553,000	-	\$14,553,000
Distribution Lane	\$7,479,000	\$21,000	\$7,500,000	-	-	-	-	-	\$7,500,000	(\$21,000)	\$7,479,000
Victoria Street	\$60,174,000	\$10,000	\$60,184,000	-	-	\$100,000	-	-	\$60,284,000	(\$10,000)	\$60,274,000
Gloucester Street	\$27,501,000	-	\$27,501,000	-	-	\$263,000	-	-	\$27,764,000	-	\$27,764,000
901 Arthur Porter Drive	\$23,828,000	-	\$23,828,000	-	-	-	-	-	\$23,828,000	-	\$23,828,000
Ruffell Road	\$20,092,000	-	\$20,092,000	-	-	-	-	-	\$20,092,000	-	\$20,092,000
21 Rewa Rewa Road	\$8,114,000	-	\$8,114,000	-	-	\$46,000	-	-	\$8,160,000	-	\$8,160,000
46-50 Rewa Rewa Road	\$11,421,000	-	\$11,421,000	-	-	\$69,000	-	-	\$11,490,000	-	\$11,490,000
Total	\$480,384,000	\$2,300,000	\$482,684,000	-	-	\$1,947,000	-	-	\$484,631,000	(\$2,300,000)	\$482,331,000

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Assumptions (continued)

- (k) **Regulatory Environment:** The Prospective Financial Statements have been prepared on the assumptions that there will be no material changes in the economic, legal or regulatory environment, including with respect to taxation.
- (l) **Contribution Fee:** The Fund is assumed to be charged a contribution fee equating to 2.00% of the total equity raised by the Fund, except for any equity raised from another fund managed by PMG for which a 2.00% contribution fee has already been charged historically. The Manager ultimately pays away some or all this amount to the Manager's sales team and third-party referring agents. For the Offer, it has been presumed the Manager charges the Fund \$1,000,000 plus GST on or around 31 August 2022 (based on 49,250,000 shares being issued from the Offer, and approximately 11,363,636 Shares being purchased by another fund managed by the Manager).
- (m) **Related party transactions:** The Fund's related parties include the Manager and members of key management personnel of the Manager and its holding company, PMG Holdings Limited (**Holdings**). The Fund is further related to PMG Capital Fund Limited (**PMG Capital**) as Scott McKenzie and Denis McMahon are directors of both PMG Capital Fund Limited and the Manager. PMG Charitable Trust is related to the Manager as multiple members of the Manager's key management personnel are also trustees of the PMG Charitable Trust. PMG Generation Fund is also related to the Fund by virtue of the Manager being the issuer of PMG Generation Fund, and the commonality of directors as noted above between the Manager and the Fund.

The Manager is entitled to recover fees and expenses from the Fund as noted in this document, including a contribution fee of \$1,000,000 and an acquisition fee of \$385,000 associated with the Offer. The contribution fee represents 2.00% of the value of shares issued (with some exceptions), and the acquisition fee is charged based on 1.00% of the value of property acquired.

An underwriting commitment fee of 3.00% will be paid by the Fund to any party entering an underwriting arrangement relating to the Offer. The Fund has entered such underwriting arrangements with the following related parties:

- PMG Capital;
- PMG Generation Fund;
- Two directors of the Fund (Craig Garrett, through a related entity, and Denis McMahon); and
- the Manager.

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

Forsite Limited, who has two directors in common with the Manager, provide a health and safety software service to the Fund for an immaterial amount per property per annum.

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

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Sensitivity analysis

Prospective Financial Statements are inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from Prospective Financial Statements, and this variation could be material. A summary of the likely effects of variations in key assumptions on the Prospective Statement of Comprehensive Income are detailed overleaf. Any cents per share assessment is based on the weighted average number of shares on issue during the relevant period.

The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting this information. The approach taken in respect of the sensitivities has been to determine those variables most likely to significantly affect results in years ending 31 March 2023 and 2024, using the Fund's judgement. Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions (except where borrowings would be required to provide the Fund with a positive cash balance), which is not likely to be the case. It is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects. Furthermore, the sensitivity analysis does not consider any potential mitigating actions that the Manager of the Fund may take from time to time. Change in net profit per share is presented as movement in net profit divided by the forecast number of shares on issue at year end in the relevant scenarios.

Rental income risk: Exposure to rental income risk is in the normal course of the Fund's business. The sensitivity result overleaf is based on a net rental income increase/decrease of 5% applied to total monthly property net rental income from June 2022. This could occur due to variation in vacancy and vacancy periods, tenant defaults, or lease terms from that forecast. A reduction in rental income could also occur due to inability to access property, such as experienced in both the financial year to 31 March 2021 and 31 March 2022 due to emergency provisions related to COVID-19. Should similar events reoccur, the amount, duration, and timing of any rental variation is likely to differ from the hypothetical sensitivity estimate and may impact rental income by an amount above or below a 5% change in monthly net rental income.

Interest rate risk: Exposure to interest rate risk is in the normal course of the Fund's business. The sensitivity results are based on a 50-basis point shift (bps) (0.5% rate movement) in the weighted average interest rate on bank borrowings above or below the rate assumed from 1 June 2022. No change in the fair value of interest rate swaps has been accounted for in the sensitivity.

Capital expenditure risk: Total capital expenditure is subject to variation in both timing and value and is a material cost to the Fund with an inherent risk of being incurred above or below the amounts projected. The sensitivity results overleaf are based on an increase/(decrease) of \$3,000,000 in required capital expenditure over the period from 1 June 2022 to 31 March 2024, that are not recoverable from other parties. The sensitivity adjustments have been applied evenly across total monthly capital expenditure (including Property Project Fees).

Valuation risk: Investment Property is valued at fair value. Fluctuations in value will directly impact the Fund's performance. The value of investment property is sensitive to changes in various assumptions over a period, including future tenancy risk, the capitalisation rate and discount rate applied, and projected operational and capital expenditure. The value of investment property will also impact the fund management fees charged, which is based on the value of investment property managed. The sensitivity adjustments are based on increasing / decreasing assumed fair value by 5% of the assumed fair value as at 31 March 2023 (with no further reductions).

Offer funding risk: Share capital raised and funding available is influenced by the success of the Offer. Should the total number of Shares issued under the Offer differ from 49,250,000, a different level of cash on hand or borrowings would be generated causing a change in the weighted average interest rate of the Fund. The sensitivity result to offer funding overleaf presumes either the Minimum Equity Raise, or the Maximum Equity Raise, is achieved (being 34,090,000 shares/\$44,998,800, and 64,400,000/\$85,008,000 respectively), no new Property Investments are acquired, and that the borrowing repayment profile is appropriately adjusted to maintain cash on hand at comparable levels to that in the Prospective Financial Information.

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Sensitivity item	Increase / (Decrease)	Measure impacted	FY2023		FY2024	
			Increase item	Decrease item	Increase item	Decrease item
Rental Income	5% / (5%) across 22 months	Rental Income from Investment Properties	1,144,000	(1,144,000)	1,434,000	(1,434,000)
		Property and Fund Management Fees	18,000	(17,000)	21,000	(22,000)
		Other Expenses	-	-	2,000	(1,000)
		Interest Expense	-	22,000	-	97,000
		Net Profit	1,126,000	(1,149,000)	1,411,000	(1,508,000)
		Cash and Cash Equivalents	1,146,000	31,000	2,558,000	72,000
		Borrowings	-	1,200,000	-	2,750,000
		Trade and Other Payables	2,000	(2,000)	2,000	(2,000)
		Other Current Liabilities	17,000	(17,000)	18,000	(18,000)
		Change in Net Profit per share	0.45 cps	(0.46 cps)	0.57 cps	(0.61 cps)
Interest Rate	50bps / (50bps) across 22 months	Interest Expense	611,000	(599,000)	881,000	(823,000)
		Net Profit	(611,000)	599,000	(881,000)	823,000
		Cash and Cash Equivalents	39,000	599,000	59,000	1,422,000
		Borrowings	650,000	-	1,550,000	-
		Change in Net Profit per share	(0.26 cps)	0.24 cps	(0.35 cps)	0.33 cps
Capital Expenditure	\$3,000,000 / (\$3,000,000) across 22 months	Interest Expense	23,000	-	106,000	-
		Net Profit	(23,000)	-	(106,000)	-
		Cash and Cash Equivalents	(50,000)	1,227,000	58,000	2,864,000
		Borrowings	1,200,000	-	3,050,000	-
		Investment Property	1,364,000	(1,364,000)	3,000,000	(3,000,000)
		Trade and Other Payables	157,000	(157,000)	157,000	(157,000)
		Other Current Liabilities	(20,000)	20,000	(20,000)	20,000
		Change in Net Profit per share	(0.01 cps)	-	(0.04 cps)	-

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Property Valuation	5% / (5%) at 31 March 2023	Property and Fund Management Fees	-	-	119,000	(119,000)
		Other Expenses	-	-	21,000	(21,000)
		Interest Expense	-	-	4,000	-
		Net Profit	23,817,000	(23,817,000)	(145,000)	140,000
		Cash and Cash Equivalents	-	-	67,000	128,000
		Borrowings	-	-	200,000	-
		Investment Property	23,817,000	(23,817,000)	23,817,000	(23,817,000)
		Trade and Other Payables	-	-	13,000	(13,000)
		Other Current Liabilities	-	-	(2,000)	2,000
		Change in Net Profit per share	9.56 cps	(9.56 cps)	(0.06 cps)	0.06 cps
Offer Funding	\$19,998,000 / (\$20,011,000) at Settlement Date	Other Expenses	10,000	(10,000)	18,000	(18,000)
		Interest Expense	(705,000)	737,000	(1,229,000)	1,281,400
		Net Profit	695,000	(727,000)	1,211,000	(1,264,000)
		Cash and Cash Equivalents	64,000	(9,000)	14,000	(11,000)
		Borrowings	(19,700,000)	19,800,000	(19,900,000)	20,000,000
		Trade and Other Payables	2,000	(2,000)	2,000	(2,000)
		Distribution Payable	88,000	(88,000)	88,000	(88,000)
		Share capital	19,998,000	(20,011,000)	19,998,000	(20,011,000)
		Share issue transaction costs	400,000	(400,000)	400,000	(400,000)
		Dividends Declared	619,000	(619,000)	1,061,000	(1,061,000)
Change in Net Profit per share	0.26 cps	(0.31 cps)	0.46 cps	(0.54 cps)		