Home Straight Park Proportionate Ownership Scheme

Prospective Financial Information

Prospective Financial Information

The Prospective Financial Information of Home Straight Park Proportionate Ownership Scheme (the “Scheme”) comprise the following Prospective Financial Information (PFI) for the 11 months and 25 days ending 31 March 2021 and year ending 31 March 2022.

The Prospective Financial Information comprise the following:

- Prospective statements of comprehensive income;
- Prospective statements of financial position;
- Prospective statements of changes in equity;
- Prospective statements of cash flows;
- Description of general and specific assumptions, and policies applied in preparing the PFI;
- Sensitivity analysis to prospective financial information; and
- Reconciliation of non-GAAP information

This document should be read in conjunction with the Product Disclosure Statements (“PDS”) dated 5 March 2020 and other information provided on the Disclose Register (www.business.govt.nz/disclose, offer number OFR12816). Capitalised terms used but not defined in this document have the meanings given to them in the PDS.

The prospective financial information is presented in New Zealand Dollars.

Basis of preparation and presentation

The PFI has been prepared in accordance with the requirements of Financial Reporting Standard 42: *Prospective Financial Statements*, as required by clause 53(1)(c) of Schedule 3 to the Financial Markets Conduct Regulations 2014 (the “Act”).

The PFI, and underlying assumptions, have been prepared by management of Oyster Management Limited (“Oyster”) and approved by Oyster’s Board (the “Directors”), in its capacity as Manager of the Scheme, specifically for the purposes of a offer of interests in the Scheme (the “Offer”).

The Directors have given due care and attention to the preparation of the PFI (including the assumptions underlying it) and authorised the PFI as at xx March 2020 for the purpose stated above. The PFI may not be suitable for any other purpose. The PFI is based on the Directors assessment of events and conditions existing at the date of this PDS, the accounting policies and best estimate assumptions set out below.

PFI, by its nature, is inherently uncertain. It involves predictions of future events that cannot be assured as well as risks and uncertainties which are often beyond the control of the Scheme and its 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.

Various risk factors and the management thereof may influence the success of the Scheme’s business – with specific reference to Section 7 “Risks to returns from Home Straight Park Proportionate Ownership Scheme” in the PDS. Accordingly, actual results may vary from the PFI, and those variations may be significantly more or less favourable. The Directors cannot and do not guarantee the achievement of the PFI.

Financial Periods

The PFI covers the following reporting periods:

- Prospective financial information for FY21 (11 months and 25 days ending 31 March 2021); and
- Prospective financial information for FY22 (12 months ending 31 March 2022).

There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The Scheme will present a comparison of the PFI with actual financial results in its FY21 and FY22 annual reports, as required by Regulation 64 of the Act.

Explanation of certain non-GAAP financial measures

Refer to the “Reconciliation of non-GAAP financial information” section for a description and reconciliation of each adjustment to GAAP financial information.

Prospective statements of comprehensive income

	Note	11 months and 25 days ending 31 March 2021 $	12 Months ending 31 March 2022 $
Rental income from Investment Property	1.2.3	4,278,563	4,450,159
Accrual for fixed rental growth	1.2.3	177,949	89,964
Property operating expense recoveries	1.2.3	325,043	339,178
Gross Property Income		**4,781,555**	**4,879,301**
Property operating expenses	1.2.3	(790,820)	(824,253)
Net Property income		**3,990,735**	**4,055,048**
Administration expenses	1.2.3	(368,891)	(374,263)
Operating Profit Before Financing Costs		**3,621,844**	**3,680,785**
Net finance expenses	1.2.3	(1,224,813)	(1,241,824)
Operating profit before Fair Value Movements		**2,397,031**	**2,438,961**
Unrealised Movement in the Fair Value of Investment Property	1.2.2	(1,488,928)	-
Operating profit before taxation		**908,103**	**2,438,961**
Income tax	1.2.18	-	-
Total profit for the year after taxation		**908,103**	**2,438,961**
Other Comprehensive Income		-	-
Total comprehensive income for the year		**908,103**	**2,438,961**

These prospective financial statements should be read in conjunction with the accompanying notes.

Prospective statements of financial position

	Note	As at 31 March 2021 $	As at 31 March 2022 $
Current assets			
Cash and cash equivalents	1.2.12	1,792,946	1,789,531
Receivables	1.2.5	-	-
Total current assets		**1,792,946**	**1,789,531**
Non-current assets			
Investment property	1.2.2	69,500,000	69,529,761
Accrual for fixed rental growth	1.2.3	177,949	267,913
Total non-current assets		**69,677,949**	**69,797,674**
Total assets		**71,470,894**	**71,587,205**
Current liabilities			
Trade and other payables	1.2.6	225,975	229,007
GST payable	1.2.7	43,326	44,169
Distribution Payable	1.2.8	197,250	197,250
Interest bearing liabilities (Amortisable borrowing costs)	1.2.9	(39,474)	(39,474)
Total current liabilities		**426,077**	**430,952**
Non-current liabilities			
Interest bearing liabilities (net of amortisable borrowing costs)	1.2.9	34,709,985	34,749,459
Total non-current liabilities		**34,709,985**	**34,749,459**
Total liabilities		**35,136,062**	**35,180,411**
Net assets		**36,334,832**	**36,406,794**
Equity			
Issued Capital		37,760,389	37,760,389
Retained Earnings		(1,425,557)	(1,353,595)
Total equity		**36,334,832**	**36,406,794**

Director

Date: 5 March 2020

Director

Date: 5 March 2020

These prospective financial statements should be read in conjunction with the accompanying notes.

Prospective statements of changes in equity

	Note	Issued Capital	Retained Earnings/ (Deficit)	Total
		$	$	$
Equity as at 06 April 2020				
Shares issued	1.2.10	39,450,000	-	39,450,000
Offer establishment costs	1.2.16	(1,689,611)	-	(1,689,611)
Total comprehensive income for the year		-	908,103	908,103
Distributions paid to Investors	1.2.11	-	(2,333,660)	(2,333,660)
Equity as at 31 March 2021		**37,760,389**	**(1,425,557)**	**36,334,832**

Equity as at 01 April 2021		**37,760,389**	**(1,425,557)**	**36,334,832**
Shares issued		-	-	-
Offer establishment costs		-	-	-
Total Comprehensive Income for the year		-	2,438,961	2,438,961
Distributions paid to Investors	1.2.11	-	(2,367,000)	(2,367,000)
Equity as at 31 March 2022		**37,760,389**	**(1,353,595)**	**36,406,794**

These prospective financial statements should be read in conjunction with the accompanying notes.

Prospective statements of cash flows

	Note	11 months and 25 days ending 31 March 2021 $	12 Months ending 31 March 2022 $
Cash flows from operating activities			
Cash provided from:			
Rental Receipts	**1.2.3**	4,278,563	4,450,159
Operating expense recoveries		325,043	339,178
Net GST received/(paid)		42,326	1,843
		4,645,932	**4,791,181**
Cash disbursed to:			
Administration expenses		(309,929)	(373,102)
Property operating expenses		(724,002)	(822,382)
Interest Paid		(1,085,683)	(1,202,350)
		(2,119,614)	**(2,397,834)**
Net cash flow from operating activities	**1.2.4**	**2,526,318**	**2,393,347**
Cash flows from investing activities			
Cash was applied to			
Purchase of investment property	**1.2.2**	(69,500,000)	-
Property purchase costs	**1.2.2**	(1,404,134)	-
Capital expenditure	**1.2.2**	(84,794)	(29,761)
Net cash flow used in investing activities		**(70,988,928)**	**(29,761)**
Cash flows from financing activities			
Cash provided from:			
Bank Loan	**1.2.9**	34,750,000	-
Investor contributions	**1.2.10**	39,450,000	-
		74,200,000	**-**
Cash disbursed to:			
Distributions paid to investors	**1.2.11**	(2,136,410)	(2,367,000)
Finance Legal Costs	**1.2.16**	(118,423)	-
Issue Costs	**1.2.16**	(1,689,611)	-
		(3,944,444)	**(2,367,000)**
Net cash provided from financing activities		**70,255,556**	**(2,367,000)**
Net increase/(decrease) in cash and cash equivalents		**1,792,946**	**(3,415)**
Cash and cash equivalents at the beginning of the year		**-**	**1,792,946**
Cash and cash equivalents at the end of the year		**1,792,946**	**1,789,531**

These prospective financial statements should be read in conjunction with the accompanying notes.

NOTES AND ASSUMPTIONS FOR THE PERIOD ENDING 31 MARCH 2021 AND YEAR ENDING 31 MARCH 2022

The purpose of the prospective financial statements is to assist investors in assessing the viability of and return on funds invested. The Product Disclosure Statement ("PDS") and the prospective financial information contained in it may not be appropriate for any other purpose.

The Scheme is to be established and domiciled in New Zealand.

The Scheme will be a commercial property investor that will own the Home Straight Park which is three properties located at 17,19 and 21 Home Straight, Te Rapa, Hamilton.

The registered office of the Manager is level 18, 55 Shortland Street, Auckland Central, Auckland 1010.

The prospective financial statements were authorised for issue on 5 March 2020. The Directors of the Oyster are responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. It is not intended for the prospective financial information to be updated subsequent to issue.

1. Assumptions

The following general and specific assumptions have been adopted in preparing the prospective financial information. The general and specific assumptions contained in this section should be read in conjunction with Section 7 "Risks to returns from Home Straight Park Proportionate Ownership Scheme" in the PDS.

1.1 General Assumptions in respect of the PFI

- General Environment – there will be no material change to the economic, political, legal or regulatory environment for the New Zealand market, in which the Scheme operates.
- Markets operating in – the Scheme will continue to operate only in New Zealand over the prospective periods.
- Industry conditions – there will be no change in the general industry structure, third party relationships, supply and the rental property or general employment conditions.
- Tenant and suppliers – existing contractual, business and operational relationships are assumed to continue throughout the prospective periods. There will be no unanticipated loss of tenant, suppliers or agents.
- Disruption to operations – there will be no material disruption to operations such as natural disasters, fires or explosions and normal hazards associated with operating the Scheme's business.
- Legal exposure – there will be no unexpected litigation or contractual disputes.
- Property / business acquisitions – there will be no material acquisitions or disposals by the Scheme other than those detailed within the PFI.
- Interest rate environment – there will be no material and / or sudden changes to the interest rate environment.
- Financial Reporting Standards – there will be no change in the financial reporting standards or accounting interpretations which would have a material effect on the Scheme.
- Management of the Scheme – the Scheme will be managed by Oyster Management Limited ("Oyster"), who will be sufficiently resourced to manage the Scheme with no significant changes to key personnel involved in management of the Scheme.

1.2 Specific Assumptions

1.2.1 Settlement

Pursuant to the Sale and Purchase Agreements for Home Straight Park, settlement is the later of:

a) 6 April 2020; and

the date being 10 working days following the date on which search copies of the new record of title for 21 Home Straight iw is created on completion of the subdivision are provided to Oyster by the vendor For the purpose of the prospective financial information settlement is assumed to occur on 6 April Therefore, for the purpose of the financial information, rental income has been recognised from 7 April.

The properties are assumed to be purchased by the Scheme on 6 April 2020 at a purchase price of $69,500,000.

It is assumed that $39,450,000 of equity is raised in the Offer and $34,750,000 of debt drawn to facilitate settlement and payment of the establishment costs. It is assumed that the bridging loan is not required.

	$
Purchase Price for Investment Properties	69,500,000
Establishment Costs	3,212,168
Working Capital	1,487,832
Total	74,200,000
Funded by:	
Loan Facility (debt)	34,750,000
Equity	39,450,000
Total	74,200,000

1.2.2 Investment property

Investment property comprises land and buildings situated at 17,19 and 21 Home Straight, Te Rapa, Hamilton which will be secured against the borrowings.

	As at 31 March 2021 $	As at 31 March 2022 $
Balance at the beginning of financial year	-	69,500,000
Purchase price of property	69,500,000	-
Property purchase costs	1,404,134	-
Capital expenditure	84,794	29,761
Unrealised Movement in the Fair Value of Investment Property	(1,487,832)	-
Balance at end of financial year	**69,500,000**	**69,529,761**

On settlement date, 6 April 2020, the fair value of the properties is assumed to equal the cost, plus any directly related acquisition costs.

On 31 March 2021 the investment property is recorded at valuation. The revaluation adjustment in the PFI, reflects the most recent valuation prepared by Jones Lang Laselle as at 22 January 2020. No further movement in valuation is assumed through the prospective period due to the uncertainty in predicting the fair value movement. This uncertainty arises due to having to predict the future market conditions that will influence the fair value.

Net expenditure assumed in the PFI, includes general capital expenditure of $84,794 for the period ending 31 March 2021 and $29,761 for the year ending 31 March 2022, which is based on property condition reports commissioned.

1.2.3 Revenue and expenses

	11 months and 25 days ending 31 March 2021 $	12 months ending 31 March 2022 $
Rental Income		
Rental income before fixed rental growth adjustment	4,278,563	4,450,160
Accrual for fixed rental growth*	177,949	89,964
Total rental income	**4,456,512**	**4,540,124**

Rental Income

Rental revenue is recognised evenly over the period of the leases as the Scheme provides rental services to the tenant. Income is assumed to commence on 7 April 2020 and is based on the terms of the existing lease agreements with tenants. The PFI reflects all fixed rent reviews occurring during the reporting periods ending 31 March 2021 and year ending 31 March 2022.

Fixed rental growth

Lease income from operating leases is expected to be recognised in income on a straight-line basis over the lease term. Hence the accrual for fixed rental growth is the timing difference between the income reported in the PFI, and the invoiced amount based on the contract which reflects the impact of future fixed annual rental growth over the lease term.

For the financial period ending 31 March 2021 and the year ending 31 March 2022 it is assumed that there no tenant defaults. It is also assumed there are no delays in receipt of debtors.

	11 months and 25 days ending 31 March 2021 $	12 months ending 31 March 2022 $
Property operating expenses		
Utilities and rates	259,213	270,172
Insurance	101,013	105,284
Property management fees	115,090	119,733
Other Expenses	315,504	329,064
Total Property Operating Expenses	**790,820**	**824,253**

Property operating expenses have been forecast based on a combination of assumptions. The assumptions include those identified during the due diligence process, and those based on quotes received.

All operating costs are payable (including rates, management fees, material damage insurance premiums, utilities and maintenance costs) by the landlord. Under the lease structure 41% of these costs are able to be recovered from the tenants.

Property management fees are charged by the Manager to the Scheme based on 2.5% of gross rental income. Gross rental income is Rental Income plus the Property Operating expense recoveries.

It is assumed that all operating cost payments will be made on time and that there are no creditors associated with these operating costs.

	11 months and 25 days ending 31 March 2021 $	12 months ending 31 March 2022 $
Administration expenses		
Accounting fee	10,000	10,180
Audit fees	10,000	10,180
Scheme management fees	308,466	312,750
Supervisor fees	22,225	22,625
Other administration expense	1,200	1,222
Valuation fees	17,000	17,306
Total administration expenses	**368,891**	**374,263**

The Manager will charge the Scheme management fees of 0.45% of the capital value of the property plus GST per annum for the period ending 31 March 2021 and the year ending 31 March 2022 which will be paid monthly on the 1st of the month. Currently the asset value is $69,500,000, as per the independent valuation completed as at 22 January 2020, therefore the Scheme management fee for FY22 is recorded as $312,750 plus GST per annum.

Administration expenses have been based on contractual obligations, quotes received and/or estimates made using experience of managing similar schemes.

	11 months and 25 days ending 31 March 2021 $	12 months ending 31 March 2022 $
Finance expenses		
Bank loan interest	1,185,879	1,202,350
Amortisation of borrowing costs	38,934	39,474
Net finance expense	**1,224,813**	**1,241,824**

No principal repayments have been assumed (interest only) during the initial 3 year term of the loan. The interest expense is assumed to be 3.46%.

The interest rate comprises a margin of 2.14% as agreed plus an assumed floating rate of 1.32%.

	11 months and 25 days ending 31 March 2021 $	12 months ending 31 March 2022 $
Auditor's remuneration		
Financial statement audit	10,000	10,180
Investigating accountant for the prospective financial information*	45,000	-

*The cost of the investigating accountant has been recognised directly in equity as an establishment cost.

1.2.4 Reconciliation of net profit to net cash flow from operating activities

	11 months and 25 days ending 31 March 2021 $	12 months ending 31 March 2022 $
Net Profit	908,103	2,438,961
Adjustments for:		
Amortisation of borrowing costs	38,934	39,474
Accrual for fixed rental growth	(177,949)	(89,964)
Unrealised Movement in the Fair Value of Investment Property	1,488,928	-
	2,258,017	**2,388,471**
Changes to assets and liabilities relating to operating activities:		
Increase/(decrease) in trade and other payables	225,975	3,032
Increase/(decrease) in GST payable	42,326	1,843
Net cash flow from operating activities	**2,526,318**	**2,393,347**

1.2.5 Trade and other receivables

	As at 31 March 2021 $	As at 31 March 2022 $
Trade and other receivables		
Trade and other receivables	-	-
Total trade and other receivables	**-**	**-**

It is assumed that there is no tenant default, and that there are no delays in receipt of debtors, therefore no trade receivables are assumed to arise at each period end.

1.2.6 Trade and other payables

	As at 31 March 2021 $	As at 31 March 2022 $
Trade and other payables		
Trade payables	125,779	128,811
Accrued interest	100,196	100,196
Total trade and other payables	**225,975**	**229,007**

Trade payables balances assume one month credit terms with suppliers for accounting, audit, valuation and property operating expenses. One month of accrued interest is assumed to be outstanding at each period end.

1.2.7 Good and Services Tax (GST)

The prospective financial statements have been prepared using GST exclusive figures with the exception of receivables and payables which are stated as GST inclusive. The net amount of GST recoverable from, or payable to, Inland Revenue, is shown in the prospective statements of financial position.

1.2.8 Distributions Payable

It is assumed there is one month outstanding at each period end as Distributions are paid on the 10th of the following month.

1.2.9 Borrowings

The loan facility will be equal to the term loan limit of $34,750,000 which will be drawn down on the settlement date of 6 April 2020.

The loan agreement is a 3 year loan facility from the date of drawdown and will be interest only.

Borrowing costs are estimated at $118,423. These will be amortised over the three year period of the initial borrowings.

At all times the loan to property valuation ratio (LVR) is to be lower than 55%. Interest cost is at all times to be maintained at not less than 2.00x, calculated as net rental income generated divided by interest expense.

	As at 31 March 2021 $	As at 31 March 2022 $
Current interest bearing liabilities		
Amortisable borrowing costs	(39,474)	(39,474)
Non-current interest bearing liabilities		
Balance at the beginning of the financial year	-	34,709,985
Loan	34,750,000	-
Amortisable borrowing costs	(40,015)	39,474
Balance at the end of the financial year	**34,709,985**	**34,749,459**
Total Interest bearing liabilities	**34,670,511**	**34,709,985**

Loan Covenants

	As at 31 March 2021 $	As at 31 March 2022 $
Loan to value ratio – *not to be greater than*	55.0%	55.0%
Loan to value ratio	50.0%	50.0%
Interest cover ratio – *not to be less than*	2.00:1	2.00:1
Interest cover ratio	3.05:1	3.06:1

Loan Security

The loan will be secured by a registered mortgage over 17,19 and 21 Home Straight, Te Rapa, Hamilton and a first general security interest over the assets of the Scheme.

1.2.10 Issued interests

It is assumed that funds of $39,450,000 are raised by the issue of 789 interests in the Scheme at an issue price of $50,000 per interest under the PDS for the purposes of funding the acquisition of the investment property, associated establishment costs and Scheme working capital.

The holders of interests will be entitled to receive distributions and are entitled to one vote per interest at meeting of the Scheme and rank equally with regard to the Scheme's residual assets.

1.2.11 Distributions

Cash distributions are forecast to be paid out of cash reserves from the operating activities of the Scheme monthly in arrears at a rate of 6.0% per annum for the financial periods ending 31 March 2021 and 31 March 2022. These rates are disclosed as a percentage of the initial investment based on the forecast number of interests on issue.

The Manager's objective is to ensure the Scheme continues as a going concern as well as to maintain optimal returns to the investors. As the market is constantly changing, the Manager will consider capital management initiatives, such as changing the level of distributions paid or providing funding for capital expenditure requirements.

The following gross distributions are included in the prospective financial statements for the years ending 31 March 2021 and 31 March 2022.

	11 months and 25 days ending 31 March 2021		**12 months ending 31 March 2022**	
	$	**$ per interest**	**$**	**$ per interest**
Gross distributions declared (based on 100% of Adjusted Operating Profit, see *Reconciliation of Non-GAAP information* for details)	**2,333,660**	**2,958**	**2,367,000**	**3,000**
Plus: Brought forward Distributions Payable (see 1.2.8)	-	-	197,250	250
Less: Carried forward Distributions Payable (see 1.2.8)	(197,250)	(250)	(197,250)	(250)
Cash Distributions paid in the period	**2,136,410**	**2,708**	**2,367,000**	**3,000**

1.2.12 Cash at bank

	As at 31 March 2021 $	**As at 31 March 2022 $**
Bank balances	1,792,946	1,789,531

1.2.13 Related parties

Oyster Management Limited is the Manager of the Scheme. Oyster Management Limited is also the issuer of the Product Disclosure Statement. The following is a schedule of the fees forecast to be paid to Oyster Management Limited:

	11 months and 25 days ending 31 March 2021 $	12 months ending 31 March 2022 $
Related party transactions recognised in property purchase costs:		
Acquisition fee*	1,069,231	-
Deposit fee	37,500	
	1,106,731	-
Related party transactions recognised in issue costs:		
Acquisition fee*	213,846	
Brokerage fee	789,000	-
Underwrite fee	100,500	-
Accountancy fee	15,000	-
Legal set up cost	15,000	-
	1,133,346	-
Related party transactions recognised in financing costs:		
Acquisition fee*	106,923	-
	106,923	-
Related party transactions recognised in administration expenses:		
Property Management fees	115,090	119,733
Scheme Management fees	308,466	312,750
Accountancy fees	10,000	10,180
	433,556	442,663
Total related party transactions	**2,780,556**	**442,663**

*Total acquisition fee $1,390,000 has been allocated across property purchase costs, issue costs and financing costs.

Oyster is providing an underwrite in respect of $3.35m of the total subscriptions intended to be raised. The relevant underwriting fee to be charged by Oyster is $100,500 which represents 3% of the $3.35m provided by Oyster. As a result of the underwrite Oyster will subscribe for the balance of any unsubscribed interests up to $3.35m on the close of the offer period, and hence become an investor in the Scheme.

1.2.14 Lessor operating leases

The Scheme's property has an operating leases attached to it, under which the current contractual payments due to be received are as follows:

	$
Formation to 31 March 2021	4,409,564
1 April 2021 to 31 March 2026	12,983,721
From 1 April 2026	8,914,429
Total	**26,307,715**

The above rental income accounts for future rental reviews in respect of the existing leases for the initial term. In addition, only current lease terms are included in the above table and it does not include rights of renewal in respect to the current leases.

1.2.15 Contingent liabilities

The Scheme does not anticipate having any contingent liabilities as at 31 March 2021 and 2022.

1.2.16 Establishment costs

The establishment costs for the Scheme are tabled below:

Summary of establishment costs	Property Purchase costs	Issue costs	Financing costs	Total
	$	$	$	$
Establishment cost payable to Oyster:				
Acquisition Fee	1,069,231	213,846	106,923	**1,390,000**
Underwrite Fee		100,500		**100,500**
Brokerage Fee		789,000		**789,000**
Deposit Fee	37,500			**37,500**
Legal Setup Costs		15,000		**15,000**
Accountancy		15,000		**15,000**
Total establishment costs to Oyster				**2,347,000**
Establishment cost payable to Others:				
Underwrite Fee		183,000		**183,000**
Marketing		150,000		**150,000**
Legal Setup Costs - external	200,000	152,735		**352,735**
Investigating Accountant		45,000		**45,000**
Seismic detailed assessment report	29,112			**29,112**
Property Due Diligence Reporting	33,441			**33,441**
Bank Legal			11,500	**11,500**
Asset Valuation	22,500			**22,500**
Plant & Machinery Valuation	9,350			**9,350**
Directors & Officers and Professional Indemnity Insurance		14,840		**14,840**
FMA fee		5,690		**5,690**
Supervisor's fee		5,000		**5,000**
Insurance Valuation	3,000			**3,000**
Total establishment costs to Others				**865,168**
Total	**1,404,134**	**1,689,611**	**118,423**	**3,212,168**

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Total establishment costs are assumed to be $3,312,168. This includes acquisition, underwriting, brokerage, due diligence, legal, compliance and valuation fees as well as financing, administration and marketing costs. Half of these costs are deemed to be issue costs, with the exception of $118,423 allocating to financing costs and $1,404,134 capitalised which are directly related to the acquisition of the property. Finance costs are recognised as an asset on the statements of financial position and amortised over the term of the loan. The property acquisition costs are recognised in investment property (refer 1.2.2).

The establishment costs are based on contractual obligations, quotes received and/or estimates made using experience of establishing similar schemes.

1.2.17 Capital and Operating Lease Commitments

The Scheme does not anticipate having any capital or operating lease commitments as at 31 March 2021 and 2022.

1.2.18 Actual Results

Actual results may differ from the prospective financial statements. The resulting variance may be material. The Scheme and the Manager give no guarantee or assurance that the prospective financial information presented will be achieved. The Prospective Financial Information does not include the potential impact of an independent property revaluation as at the reporting date which has the potential to be material but is a non-cash item.

2. Statement of Accounting Policies

Reporting entity
The prospective financial statements here are for the reporting entity, Home Straight Park Proportionate Ownership Scheme.

Statement of Accounting Policies

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

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

Measurement Base

The prospective financial statements have been prepared under the historical cost convention, as modified by revaluation to fair value for certain classes of assets and liabilities as described in the accounting policies.

Comparatives

The Scheme has not yet commenced trading and therefore there are no comparatives available. These prospective financial statements represent the first trading year to 31 March 2021 and also the year ending 31 March 2022.

Investment property
The property will initially be recorded at its original cost, and thereafter, annually reviewed to its fair value based on an independent valuation from a registered valuer.

In conducting the independent valuation, the primary methods of valuation used by the valuer in order to determine an appropriate market value at year end are the Capitalisation Approach and the Discounted Cash Flow Approach, in accordance with the requirements of the Property Institute of New Zealand Valuation and Property Standards.
The Capitalisation Approach is market-derived and considers both sales and leasing evidence in order to determine the current market value. Market rents are assessed for all income producing components, prior to deducting outgoings and capitalising the net income at a market aligned yield based on relevant sales. Thereafter, various capital adjustments are made to the calculated core value including adjustments for outstanding incentives, reversions to market rent and capital expenditure allowances.
Valuations reflect, where appropriate: the quality of customers in occupation, or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness, the allocation of maintenance and insurance responsibilities between the Scheme and the customer and the remaining economic life of the property.
The Discounted Cash Flow Approach allows an investor to make an assessment of the long term return that is likely to be derived from a property with a combination of both rental and capital growth over a 10 year horizon.

Revenue and expenses

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Scheme and that the revenue can be reliably measured. The principal source of revenue is rental income.

Rental income is recognised on a straight-line basis over the lease term.

Operating expense recoveries are recognised in accordance with the terms and conditions of the tenancy agreement as and when recoverable expenditure is incurred on behalf of the tenant.

Depreciation

There is no depreciation expense recorded in the PFI. For taxation purposes depreciation will be calculated by the Scheme and provided to Interest Holders for their individual tax purposes.

Finance expenses

Finance expenses consists of interest payable on borrowings which is recognised as an expense using the effective interest rate method.

Goods and Services Tax (GST)

All amounts are shown exclusive of GST except for receivables and payables that are stated inclusive of GST.

Taxation

As a proportionate Ownership Scheme, the Scheme is not liable for Income tax. Interest holders are assessed individually on their proportionate share of taxable profit and are individually responsible for the payment of their taxes.

Cash and cash equivalents

For the purposes of the Statements of Cash Flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and which are subject to an insignificant risk of changes in value and are readily accessible.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent unsecured liabilities for goods and services provided to the Scheme prior to year-end which are unpaid and arise when the Scheme becomes obliged to make future payments in respect to the purchase of goods and services. As trade and other payables are usually paid with 30 days of recognition, they are stated at the invoiced amount.

Borrowings

Borrowings are recognised initially at fair value (net of transaction costs) and subsequently stated at amortised cost using the effective interest method. Borrowing are classified as current liabilities unless the Scheme has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Derivatives

The Scheme may use derivative financial instruments (interest rate swaps) to hedge its exposure to a variable interest rate risk on borrowings. Derivative financial instruments will be carried at fair value. Any resulting gain or loss on measurements is recognised in the profit or loss.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Establishment costs

Establishment costs are treated in a number of ways depending on the nature of the costs. Costs associated with respect to raising equity are deducted from equity proceeds. Costs associated with obtaining finance are capitalised and amortised over the initial period of the borrowings. Costs associated with purchasing the property are capitalised as part of the investment property asset.

Statements of cash flows

The statements of cash flows is presented on a direct basis. The following terms are used in the statements of cash flows:

(a) Cash and cash equivalents means cash on deposit with banks;

(b) Operating activities means the gross cash received from and paid in relation to the principal revenue producing activities and other that are not investing or financing activities;

(c) Investment activities means the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents; and

(d) Financing activities means the activities which result in changes in equity and debt capital structures, this includes the payment of distributions.

SENSITIVITY ANALYSIS TO PROSPECTIVE FINANCIAL INFORMATION

Prospective Financial Information is inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from the Prospective Financial Information, and this variation could be material. A summary of the likely effects of variations in key assumptions on the Prospective Statements of Comprehensive Income and Statements of Financial Position are detailed below. The sensitivities for each assumption are not intended to be indicative on predictive of the possible range of outcomes. Care should be taken in interpreting the information below. The approach taken in respect of sensitivities has been to determine those variables most likely to materially affect results in the period ending 31 March 2021 and the year ending 31 March 2022.

Each movement in an assumption is calculated and presented in isolation from possible movement 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.

The tables below illustrate the impact on Adjusted Operating Profit (as defined in the next section) and Net Assets due to movements in the key assumptions during the prospective periods. The below sensitivities do not take account of any risk management initiatives that the Scheme may take should a change in the assumptions arise.

	$	**$ per interest**
FY21 Impact		
Adjusted Operating Profit	**2,333,660**	**2,958**
Decrease in property valuations (-5%)	15,638	20
Increase in property valuations (+5%)	(15.638)	(20)
Decrease in interest rate (-0.10%)	34,274	43
Increase in interest rate (+0.10%)	(34,274)	(43)
Drawdown of Bridging loan	(122,320)	155
Net Assets	**36,334,832**	**46,052**
Increase in property valuations (+5%)	3,475,000	4,404
Decrease in property valuations (-5%)	(3,475,000)	(4,404)
FY22 Impact		
Adjusted Operating Profit	**2,367,000**	**3,000**
Decrease in property valuations (-5%)	15,644	20
Increase in property valuations (+5%)	(15,644)	(20)
Decrease in interest rate (-0.10%)	34,750	44
Increase in interest rate (+0.10%)	(34,750)	(44)
Net Assets	**36,406,764**	**46,143**
Increase in property valuations (+5%)	3,476,488	4,406
Decrease in property valuations (-5%)	(3,476,488)	(4,406)

Notes

Property valuation sensitivity

There is no impact of an increase or decrease in property values on Adjusted Operating Profit other than the impact of the Scheme management fee (which is 0.45% p.a. of the property value), given the revaluation gains or losses are excluded from the Adjusted Operating Profit definition (see Reconciliation of Non-GAAP financial information below for further detail).

Interest cost

Exposure to interest rate risk is in the normal course of operations. The Manager on behalf of the Scheme intends to fix at least 50% of the interest cost by way of an interest rate swap derivative on settlement of the investment property. The interest rate sensitivity illustration excludes any potential interest rate swap entered into. The interest rate sensitivity is calculated at the all-in interest rate that the Scheme will be paying. It also assumes that the bank margin remains fixed within the forecast periods.

Loss of tenant

The PFI assumes that there will be no tenant default in the FY21 and FY22 periods, however such a default is a risk with property investment

Home Straight Park is leased to 11 tenants which spreads the risk of a loss of income from a tenant defaulting on their lease, the top tenant accounts for just over a third of the Scheme's rental income. The leases have a variety of rent review mechanisms (market, fixed and CPI reviews) and the dates of the reviews vary across the tenancies. This should reduce the impact of any changes to rental from a tenancy due to a decrease at a market rent review, as the market reviews are spread out over a number of years and therefore the impact of tenant default has not been included in the sensitivity table.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

The Scheme's distribution policy is to distribute up to 100% of Adjusted Operating Profit.

Adjusted Operating Profit is a non-GAAP financial measure adopted to assist the Scheme in assessing the operating profit available for distribution. Adjusted Operating Profit represents total profit, excluding revaluations and initial borrowing costs which were paid on establishment and non-cash or non-recurring transactions and may include surplus working capital.

The following table is a reconciliation between the total profit for the year as per the Prospective Statements of Comprehensive Income, and the Adjusted Operating Profit as per the Scheme's distribution policy.

	11 months and 25 days ending 31 March 2021 $	**12 months ending 31 March 2022 $**
Reconciliation of Prospective Net Profit to Adjusted Operating Profit		
Prospective net profit	908,103	2,438,962
Adjust for:		
Initial borrowing costs amortised	38,934	39,474
Accrual for fixed rental growth	(177,949)	(89,964)
Unrealised Movement in the Fair Value of Investment Property	1,488,928	-
Working Capital utilised/(retained)	75,644	(21,471)
Adjusted Operating Profit	**2,333,660**	**2,367,000**

The Directors believe this non-GAAP disclosure is important as it is the consistent measure that the Directors will use when identifying future distribution levels.

A reconciliation of the total profit to the Adjusted Operating Profit is set out in the table above as the distributions paid to interest holders will be dependent on the operating cash profit generated. Items included are:

- The initial finance costs are fully paid on establishment of the Scheme but for accounting purposes are capitalised and amortised over the period of the loan facility.
- The unrealised movement in the fair value of investment property has been adjusted as this is a non-cash item.
- The fixed rental accrual has been adjusted for as this is a non-cash item.

- Surplus working capital. The initial working capital balance will be established from funds raised following the Offer and be partly utilised in supporting the distribution rate in the PFI period.