



PRECINCT PROPERTIES NEW ZEALAND LIMITED NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

PRECINCT STAPLING

18 APRIL 2023

This Explanatory Memorandum is a limited disclosure document for the purposes of the Financial Markets Conduct Act 2013. It is not a product disclosure statement or prospectus and the transactions contemplated by it do not involve any "regulated offers" for the purposes of the Financial Markets Conduct Act 2013.

Precinct Properties New Zealand Limited is subject to a continuous disclosure obligation under the Listing Rules. Market releases by Precinct, including its most recent financial statements, are available at www.nzx.com under the ticker code PCT.



IMPORTANT INFORMATION

PURPOSE OF THE EXPLANATORY MEMORANDUM

This Explanatory Memorandum is dated 18 April 2023 and explains the terms of the Stapling and the manner in which the Stapling will be considered and implemented (if approved by Shareholders and by each of the Precinct Properties New Zealand ("Precinct") and Precinct Properties Investments Limited ("Precinct Investments") Boards), and otherwise contains information material to the decision of Shareholders as to whether to approve a Special Resolution approving the Stapling (as described in this Explanatory Memorandum).

This Explanatory Memorandum generally does not include information that has already been made available to Shareholders, such as through annual reports and announcements released through the NZX. Copies of the audited consolidated financial statements for Precinct and its subsidiaries for the past ten Financial Years are available on Precinct's website, www.precinct.co.nz.

SHAREHOLDER MEETING

A special meeting of Shareholders is being convened, **online at 3:00pm Thursday 11 May 2023 at <https://meetnow.global/nz>** to consider, and if thought fit, pass a Special Resolution approving the Stapling.

For that purpose, this Explanatory Memorandum is being sent to all Shareholders explaining the Stapling. The enclosed proxy form enables Shareholders to vote on the Special Resolution by appointing a proxy to vote at the Special Meeting.

Given the importance of the Stapling, Shareholders are urged to complete and return the proxy form as soon as possible if they do not plan to attend the Special Meeting.

FORWARD-LOOKING STATEMENTS

This Explanatory Memorandum may contain forward-looking statements including, without limitation, forward-looking statements regarding the implementation of the Stapling and the financial position, business strategy and plans and objectives of management for future operations of Precinct Properties Group, based on Precinct's and Precinct Investments' current expectations about future events.

Forward-looking statements contained in this Explanatory Memorandum are subject to known and unknown uncertainties, assumptions and risks (including those risks set out in Part 8 *Risks*) that could cause the Stapling not to be implemented or the actual results, performance or achievements to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding satisfaction of conditions for and completion of the Stapling and Precinct Properties Group's present and future business strategies and the environment in which Precinct Properties Group will operate in the future. Matters not yet known to Precinct or Precinct Investments or not currently considered material by Precinct or Precinct Investments may impact on these forward-looking statements.

The statements in this Explanatory Memorandum reflect views held as at the date of this Explanatory Memorandum. In light of

these uncertainties, assumptions and risks, the forward-looking statements discussed in this Explanatory Memorandum may not occur. Given these conditions, Shareholders are cautioned not to place undue reliance on such forward-looking statements.

Subject to any continuing obligations under applicable law or any relevant Listing Rules, Precinct and Precinct Investments expressly disclaim any obligation to disseminate after the date of this Explanatory Memorandum any updates or revisions to any such forward-looking statements to reflect any change in expectations or events, conditions or circumstances upon which any such statements are based.

NO INVESTMENT ADVICE

The information outlined in this Explanatory Memorandum does not constitute financial product or investment advice. This Explanatory Memorandum has been prepared without reference to the particular investment objectives, financial situation, taxation position and particular needs of individual Shareholders. It is important that Shareholders read this Explanatory Memorandum in its entirety before making any decision on how to vote in respect of the Special Resolution to approve the Stapling. Shareholders in any doubt in relation to these matters should consult their investment, financial, taxation or other professional advisor.

NZX MATTERS

A copy of the Notice of Meeting and Explanatory Memorandum has been provided to NZ RegCo. NZ RegCo does not object to distribution of the Notice of Meeting and Explanatory Memorandum. Neither NZ RegCo nor any of its officers takes any responsibility for the contents of the Notice of Meeting or Explanatory Memorandum.

INFORMATION FOR SHAREHOLDERS OUTSIDE NEW ZEALAND

This document does not constitute an offer of securities in any jurisdiction outside New Zealand but rather is explanatory material to inform a decision on whether or not to approve a change to Precinct's constitution. In particular, this document does not constitute an offer to sell, or a solicitation of any offer to buy, any shares in the United States or in any other jurisdiction. Should the Precinct Board decide to proceed with Stapling, the distribution of Precinct Investments Shares will be made without recipients having to provide any consideration. The distribution of Precinct Investments Shares contemplated by the Stapling have not been, and will not be, registered under the U.S. Securities Act of 1933 or the securities laws of any other jurisdiction.

GENERAL INFORMATION

Unless otherwise indicated, capitalised terms have the meaning set out in the Glossary.

All references to time in this Explanatory Memorandum are to New Zealand Standard Time (unless the context requires otherwise).

Any reference to \$ and cents is to New Zealand currency, unless otherwise stated.

NZX LISTING

Precinct has entered into a listing agreement with NZX. Subject to the Stapling being approved by the Shareholders and each of the Precinct and Precinct Investments Boards, NZX approving Precinct Investments' application to have its shares quoted and quotation of Precinct Investments Shares (as part of the Stapled Securities), Precinct Investments will enter into a listing agreement with NZX. Application will be made to NZX for quotation of the Stapled Securities on the NZX Main Board and all the requirements of NZX that can be complied with on or before the date of this Explanatory Memorandum have been duly complied with. However, NZX accepts no responsibility for any statement in this explanatory memorandum.

LISTING PROFILE

If the Stapling is approved by Shareholders, this Explanatory Memorandum will be filed with NZX with an additional information document disclosing the outcome of the Special Resolution, any material changes to the information contained in this Explanatory Memorandum and containing a certificate from the directors of Precinct Investments that all material information is included in the Explanatory Memorandum (read in conjunction with the additional information document). Together these will form the Profile required under the Listing Rules for the purposes of the listing of Precinct Investments.

ENQUIRIES

For all enquiries relating to the Stapling, please contact the Company Secretary, Louise Rooney, on +64 21 294 3189 or by email at companysecretary@precinct.co.nz or your financial advisor. If you have any questions about how to complete the Proxy Form, please contact the Share Registrar as set out in the Directory.



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LETTER FROM THE CHAIR



CRAIG STOBO, INDEPENDENT DIRECTOR AND CHAIR

Dear Shareholder,

Tēnā koe. On behalf of the directors of Precinct, I am pleased to present you with this Explanatory Memorandum and ask you to support the proposal for Precinct to move to a stapled structure. This Explanatory Memorandum contains details of the Stapling, describes the Special Resolution and sets out what you need to do should you decide to support the Special Resolution.

Why are we proposing a stapled structure

As noted last year and most recently in our interim results earlier this year, we have been actively considering the option of moving to a stapled structure. Given Precinct's strategic direction, future participation in a wider set of opportunities and growth in our capital partnerships, the proposed stapled structure will ensure the most robust company structure to allow flexibility for Precinct to continue to execute its strategy whilst retaining Portfolio Investment Entity (PIE) status.

Following the internalisation of Precinct's management in 2021, Precinct's structure has evolved from being externally managed to an internally managed real estate investment company. Our strategy has broadened to now include the ability to partner with direct investors, offering the opportunity for joint investment into our assets and large-scale development projects. Precinct's capital partnerships offer the opportunity to invest in a wider set of opportunities and to leverage the market position that Precinct has. Precinct expects these opportunities to lead to enhanced earnings. Precinct's capital partnering objectives include enhancing earnings through improved return on equity, improving capital management and leveraging development opportunities to drive higher returns on capital.

The proposed stapled structure, combined with strategy execution, is expected to provide significant long-term benefits to Precinct and its investors. It will allow for growth in its capital partnerships, ensuring Precinct is fit for purpose and able to continue to deliver on its strategy and growth potential. Precinct's revised strategy, supported by a stapled structure is expected to provide earnings growth while ensuring Precinct retains its PIE status.

Retaining Precinct's existing company structure will require Precinct to limit its strategic aspirations and opportunities. Precinct will be constrained in its ability to continue to grow its management and operational business or pursue new growth opportunities to adhere to PIE rules.

What is a stapled structure

A stapled structure is a common corporate structure often used in the real estate sector in Australasia. A stapled group comprises two listed parent companies whose shares are held by the same shareholders in equal proportions. The shares in each parent company are "stapled" together, meaning they can only be transferred or dealt with together. In this case, if Shareholder approval is received, the underlying assets of the stapled group will be the same as immediately prior to stapling.

Precinct's real estate offering

Ranked in the NZX top 20, Precinct is the largest owner, manager and developer of premium inner-city real estate in Auckland and Wellington. While Precinct predominantly invests in office buildings, it has successfully extended its offering to include:

- Flexible and co-working space in Auckland and Wellington provided by Generator;
- A hotel, retail and hospitality offering;
- Capital partnerships with GIC and PAG; and
- A multi-unit residential development management business.

Long-term benefits of Precinct moving to a stapled structure

Moving to a stapled structure will:

- Provide flexibility for Precinct to continue to execute its strategy;
- Allow growth in Precinct's capital partnerships;
- Enable future participation in a wider set of opportunities including residential and large-scale development projects;
- Ensure Precinct is fit for purpose to enable sustainable growth while retaining PIE status; and
- Provide opportunities to improve Precinct's capital management position, return on equity and long-term earnings for shareholders.

PIE tax benefits

Precinct is a listed PIE under New Zealand's PIE regime. This regime benefits New Zealand investors as all dividends received can be excluded from their tax returns. To maintain PIE status, Precinct must continue to satisfy all the PIE eligibility requirements on an ongoing basis.

As outlined above, Precinct has extended its business model and revenue streams. As a result, it now has income and investments that are classified as both qualifying and non-qualifying for the purposes of PIE eligibility as set out under the Income Tax Act.

Supporting Precinct to move to a stapled structure will allow for further growth while ensuring both Precinct and its investors retain the tax benefits available under New Zealand's PIE regime by remaining a listed PIE.

What you need to do

This Explanatory Memorandum contains important information. You should read it carefully as part of your consideration of the Special Resolution. Shareholders should specifically refer to the advantages, disadvantages and risks of the Stapling described in Part 3 *Details of the Stapling*, Part 6 *Tax and Dividend Information* and Part 8 *Risks*.

Special Meeting

Shareholders will be asked to vote on the Special Resolution at the Special Meeting scheduled to be held online at 3:00pm, Thursday 11 May 2023 at <https://meetnow.global/nz>.

A Virtual Meeting Guide with instructions for attending the meeting online is available at www.computershare.com/vm-guide-nz. Please note that attendance and participation to the virtual meeting will be through a live webcast.

Votes can be lodged during the virtual meeting, or by appointing a proxy to vote on your behalf.

You may appoint a proxy to vote on your behalf using the proxy forms enclosed with this Explanatory Memorandum or online at www.investorvote.co.nz. Proxy notifications must be made by 3:00pm on Tuesday 9 May 2023. Proxy forms received after this time will be invalid.

If you are uncertain about the course of action you should take regarding any information contained in the Notice of Meeting and this Explanatory Memorandum, you should consult your legal, investment, taxation or other professional advisor(s).

If approved and Precinct moves to a stapled structure, Shareholders are expected to receive their Precinct Properties Group Stapled Shares on 1 July 2023 and holding statements following that date. However, the Board reserves the right to implement the stapled structure at a different date, in which case Shareholders will be notified of the revised Effective Date.

Board recommendation

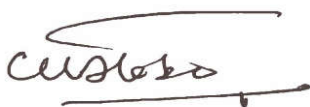
The Board believes the proposed stapling is in the best interest of Precinct investors and partners and will support Precinct's growth potential well into the future, creating long-term sustainable value.

The Board of Directors of Precinct **unanimously supports and recommend that Shareholders vote in favour of the special resolution.**

We look forward to creating value for you, our Shareholders, as we continue to execute on our strategic growth initiatives and deliver on our long-term strategy. Having the support of our investors is an integral part in achieving this.

On behalf of the Board, thank you for your continued support in Precinct and I welcome your consideration for the proposed change to a stapled structure.

Ngā mihi,



Craig Stobo
Independent Director and Chair
Precinct Properties New Zealand Limited

NOTICE OF MEETING

Notice is given that a Special Meeting of the Shareholders of Precinct Properties New Zealand (**Precinct**) will be held online at 3:00pm on Thursday 11 May 2023 at <https://meetnow.global/nz>.

BUSINESS

The business of the meeting will be to consider and, if thought fit, pass the following Resolution:

Approval of alterations to Precinct's Constitution

As a Special Resolution:

*"That the Constitution of Precinct Properties New Zealand Limited ("**Precinct**") be revoked and Precinct adopt a replacement Constitution in the form described in the Notice of Meeting and Explanatory Memorandum and tabled at the Special Meeting and signed by the Chair for the purpose of identification to take effect from a time determined by the Board of Directors of Precinct and notified to NZX, and provided that this resolution will be deemed not to have been passed unless the Board resolve that, in the Board's view, the adoption of the replacement Constitution remains in the best interests of Precinct and its Shareholders taken as a whole."*

DIRECTORS' RECOMMENDATION TO APPROVE THE SPECIAL RESOLUTION

The Precinct Board fully supports the Stapling and unanimously recommends that Shareholders vote in favour of the Special Resolution. Each Director has indicated that they will be voting the Precinct Shares they hold or control in favour of the Special Resolution (to the extent permitted).

VOTING AND PROXIES

You may exercise your right to vote at the Special Meeting either by participating directly online or by appointing a proxy to attend and vote in your place. A Proxy Form is enclosed with this Notice of Meeting. If you wish to vote by proxy, you must complete the form and return it to Precinct in accordance with its instructions so as to be received **no later than 3:00pm on Tuesday 9 May 2023**. Proxy forms returned after this time will be invalid.

A proxy need not be a Shareholder. You may direct your proxy how to vote or give your proxy discretion to vote as he or she thinks fit. If you wish to give your proxy such discretion you should mark the appropriate box on the proxy form accordingly. If you do not mark any box then your proxy may vote or abstain from voting as he or she sees fit. If your named proxy does not attend the meeting or you have inadvertently not named a proxy, the Chair will be your proxy and will vote in accordance with your expressed direction.

The Chair of the Board is willing to act as a proxy. If you appoint the Chair as proxy but do not direct him to vote on any particular matter then the Chair intends to vote your Precinct Shares in favour of the Special Resolution.

If you choose to attend online you will be able to view a live webcast of the meeting, ask questions and submit your votes in real time using a smartphone, tablet or computer. You will need the latest version of Chrome, Safari or Edge. Please ensure your browser is compatible. In order to participate you will need to visit: <https://meetnow.global/nz>.

Details of how to participate 'virtually' are included in the Virtual Meeting Guide available at www.computershare.com/vm-guide-nz. Shareholders are encouraged to review this guide prior to the Special Meeting. If you have any questions, or need assistance with the online process, please contact Computershare on +64 9 488 8777 between 8:30am and 5:00pm Monday to Friday.

By order of the Board

Craig Stobo Independent Director and Chair

Notes:

1. The Resolution is a Special Resolution which requires approval by not less than 75% of the votes of those Shareholders entitled to vote and voting on the Special Resolution.
2. A copy of the NZX Listing Rules can be viewed at www.nzx.com

EXPLANATORY NOTES

These explanatory notes set out further detail of the proposed amendments to the constitution which are the subject of the Special Resolution required under the Companies Act and Listing Rules.

Background

The purpose of the Special Meeting is to consider and, if thought fit, to approve the Special Resolution approving the amendments to the Constitution.

A summary of the Stapling and the consequences of approving the Stapling are set out in Part 3 of this document.

A document showing the comparison of the proposed new version of Precinct's Constitution as a mark up against Precinct's current Constitution is available at <https://www.precinct.co.nz/corporate-governance>. Shareholders can request a physical or electronic copy of the proposed Constitution by emailing companysecretary@precinct.co.nz or phoning 021 294 3189.

If the Special Resolution is not approved, the amendments to the Constitution will not become effective and Stapling will not be able to occur. In that case, Precinct Investments would remain a wholly-owned subsidiary of Precinct.

Board recommendation

The Precinct Board fully supports the Stapling and unanimously recommends that Shareholders vote in favour of the Special Resolution to be put to them at the Special Meeting. Each Director has indicated that they will be voting in favour of the Special Resolution.

Minority buy-out rights

Approval by Shareholders of the Special Resolution put forward in this Notice of Meeting will affect the rights attaching to Precinct Shares in certain ways for the purposes of section 117 of the Companies Act. For example, Shareholders will not be able to acquire or dispose of Precinct Shares separately from the acquisition or disposal of Precinct Investments Shares.

If a Shareholder votes against the Special Resolution with all of the shares that are registered in that Shareholder's name and have the same beneficial owner, and that resolution is nonetheless passed, that Shareholder will be entitled, if the Shareholder elects to do so, to require Precinct to purchase their Precinct Shares, under section 111 of the Companies Act. The Companies Act prescribes specific procedures in relation to the exercise of such minority buy-out rights. Any Shareholder who is entitled, and wishes, to require Precinct to purchase its Precinct Shares in accordance with the above may within 10 working days of the passing of the Special Resolution give a written notice to Precinct.

The terms of the Special Resolution require the amendments to the Constitution to be approved by the Precinct Board in order for the Special Resolution to be effective. If Board approval is not given, the Stapling will not occur and Precinct will retain its existing Constitution and structure, and consequently, rights attaching to Precinct Shares for the purposes of section 117 of the Companies Act will not have been affected. This approach is to protect the interests of Precinct and its Shareholders as a whole, by providing a mechanism whereby the Stapling will not be implemented if to do so would be likely, in the Board's view, to impose a material liability or other obligation on Precinct.

Important

The Board recommends to all Shareholders that if they are in any doubt as to any aspect of the matters to be considered at the Special Meeting, they should seek independent financial or legal advice in relation to, and as to their rights as Shareholders arising from, the matters set out in this Notice of Meeting.

PART 1: OVERVIEW OF THE STAPLING

Topic	Summary
Who is the issuer of this Explanatory Memorandum?	Precinct has issued this Explanatory Memorandum to all Shareholders for the purposes of the Special Meeting to be held online at 3:00pm on Thursday 11 May 2023.
What are the terms of the Precinct Stapling?	<p>Shareholders are being asked to vote on the Stapling. The Stapling comprises a proposal by Precinct to amend its Constitution. The proposed amendments to the Constitution require the approval of Shareholders by Special Resolution. The effect of the amendments to the Constitution is that Precinct Shares and Precinct Investments Shares will be able to be stapled (Stapling).</p> <p>A full description of the Stapling is set out in Part 3 <i>Details of the Stapling</i>.</p>
What is the Stapling?	<p>Precinct has announced the restructuring of its operations to separate its management services and operational business from its property ownership business, with Precinct to retain the property portfolio and Precinct Investments to acquire the management services and operational business. Precinct will transfer its management services and operational business to Precinct Investments on or about the Effective Date. Before the Effective Date, Precinct will enter into a management agreement with Precinct Properties Management Limited (PPML) under which PPML will manage Precinct's business and its property portfolio, for a management fee.</p> <p>If the Stapling is approved, the Precinct Board proposes to distribute all of the Precinct Investments Shares that Precinct holds in Precinct Investments, comprising all of the Precinct Investments Shares on issue, to Shareholders on the basis of one Precinct Investments Share for each Precinct Share held by them (the Distribution) and to 'staple' the shares of each company together so that Precinct Shares can only be transferred if the corresponding number of Precinct Investments Shares to which they are "stapled" are also transferred. The Distribution, which will be a transfer of Precinct Investments Shares to Shareholders for free, will result in Precinct Investments being owned by Shareholders and ceasing to be a wholly-owned subsidiary of Precinct.</p> <p>The Stapled Securities are intended to be quoted on the NZX Main Board securities market as a single parcel of shares of Precinct Properties Group.</p> <p>Further information is set out at Part 3 <i>Details of the Stapling</i>.</p>
What is the purpose of the Precinct Stapling?	<p>The amendments to the Constitution to provide for Stapling require the approval of Shareholders by Special Resolution.</p> <p>The stapling ensures that Precinct's strategy can be further progressed while maintaining our PIE status. This strategy is to grow our capital partnerships, extend our operating businesses and participate in developments, including residential.</p> <p>The Stapling will ensure the fees generated through our capital partnerships combined with our operational businesses will benefit Shareholders without adversely affecting the PIE treatment that Shareholders receive from Precinct's property ownership business. Without a stapled structure, Precinct will be constrained in its ability to grow its management and operational business or pursue new growth opportunities to adhere to PIE rules.</p> <p>For further information regarding the potential impact of this on Shareholders, see Part 3 <i>Details of the Stapling</i>.</p>
What is the purpose of the Special Meeting, Notice of Meeting and Explanatory Memorandum?	<p>In order to give effect to the Stapling proposal, amendments need to be made to Precinct's Constitution, which requires the approval of Shareholders by Special Resolution. The effect of the amendments to the Constitution is that Precinct Shares and Precinct Investments Shares will be able to be Stapled. A Special Meeting of Shareholders of Precinct will be held online to consider, and if thought fit, pass a Special Resolution approving the amendments to the Constitution.</p> <p>The Notice of Meeting and Explanatory Memorandum explain the terms of the Stapling and the manner in which the Stapling will be considered and implemented (if approved by Shareholders and by each of the Precinct and Precinct Investments Boards), and otherwise contains information material to the decision of Shareholders as to whether to approve a Special Resolution approving the amendments to the Constitution.</p>

What are the expected benefits and potential disadvantages to consider when deciding how to vote?

The proposed stapled structure, combined with strategy execution is expected to provide the most robust company structure for Precinct to enable growth in Precinct's capital partnerships, future participation in a wider set of opportunities and large scale vertical mixed-use development projects.

Moving to a stapled structure will:

- Provide flexibility for Precinct to continue to execute its strategy;
- Allow growth in Precinct's capital partnerships;
- Enable future participation in a wider set of opportunities including residential and large-scale development projects;
- Ensure Precinct is fit for purpose to enable sustainable growth while retaining PIE status; and
- Provide opportunities to improve Precinct's capital management position, return on equity and long-term earnings for shareholders.

The potential disadvantages of approval of the Stapling include:

- Shareholders may have additional tax to pay on the dividends from Precinct Investments (eg if they have a personal tax rate higher than the company tax rate or the dividend paid is not fully imputed) whereas they do not currently have any additional tax on dividends from Precinct, including on distribution of management fee income due to Precinct's PIE status;
- The Stapling will result in increased complexity within the Precinct Properties Group;
- Precinct has a binding tax ruling (the Ruling) from Inland Revenue (IR) in relation to the Stapling and its impact on Precinct's PIE status, which is valid for a period of five years. There is no guarantee that the ruling will be renewed or that the taxation law will not change in a way that adversely affects Stapling and Precinct's PIE status; and
- Management services provided by PPML to Precinct will need to be demonstrated as being on arms' length terms to comply with the requirements of the Ruling (as well as being in the best interests of each of them in accordance with usual company law requirements). This may mean that Precinct and Precinct Investments may need to engage an independent advisor to review transactions from time to time, and potentially reduces the flexibility that they currently have as members of the Precinct Properties Group.

What are the effects of the Stapling?

If the Stapling is approved by Shareholders, Precinct intends to staple the Precinct Shares and Precinct Investments Shares together to form a single security that can be traded on the NZX Main Board.

The key effect of Stapling is that Precinct Shares will not be able to be transferred without a corresponding transfer of the Precinct Investments Shares to which they are stapled (and vice versa). Shareholders will be given Precinct Investments Shares so the result is that Shareholders will not be limited in any way from being able to transfer their investment in Precinct as the Stapled Securities will be able to be traded on NZX in the same way as their Precinct Shares are currently traded.

Stapling will not affect Shareholders' rights to receive distributions from Precinct and Precinct Investments (if any), or the right to share equally in the proceeds of Precinct or Precinct Investments if either is liquidated. Stapling will also not affect Shareholders' rights to vote as a holder of Precinct Shares and Precinct Investments Shares.

Further information on Stapling and what this means for Shareholders is provided in Part 3 *Details of the Stapling*.

PART 1: OVERVIEW OF THE STAPLING (CONTINUED)

What steps are necessary to implement the Stapling?

The Stapling will only be implemented if the changes to the Constitution are approved by Shareholders (by Special Resolution) and by the Precinct and Precinct Investments Boards.

If the Stapling is approved, Shareholders who voted all their Shares against the Stapling may, potentially, be able to invoke certain buy-out rights under section 117 of the Companies Act. However, the terms of the Special Resolution require the Stapling to be approved by the Precinct Board in order for the Special Resolution to be effective. If the Stapling is not approved by the Precinct Board, the Stapling will not occur and Precinct will retain its existing constitution and structure, and consequently, rights attaching to Precinct Shares for the purposes of section 117 of the Companies Act will not have been affected and the buy-out rights will not apply.

For further information see the *Explanatory Notes* following the *Notice of Meeting*.

How much do I have to pay?

No consideration is required to be paid or provided by Shareholders under the Distribution (ie, Precinct Investments Shares will be distributed to Shareholders for free). There should be no New Zealand tax payable by Shareholders on the Distribution if Precinct is a listed PIE at the time.

What approvals are required?

Precinct is seeking approval to amend its Constitution to provide for Stapling.

The necessary amendments must be approved by Special Resolution of Shareholders, being a majority of not less than 75% of the votes attached to Precinct Shares that are entitled to vote and voting.

Shareholder approval is not being sought in connection with the Distribution, and the Distribution is not a "regulated offer" for the purposes of the FMC Act or FMC Regulations.

How do I vote?

Shareholders can vote on the Special Resolution either by:

- attending the Special Meeting online at <https://meetnow.global/nz/> or
- appointing a proxy to vote at the Special Meeting.

The Chair of the Board is willing to act as a proxy. If you appoint the Chair as proxy but do not direct him to vote on any particular matter then the Chair intends to vote your Precinct Shares in favour of each Resolution.

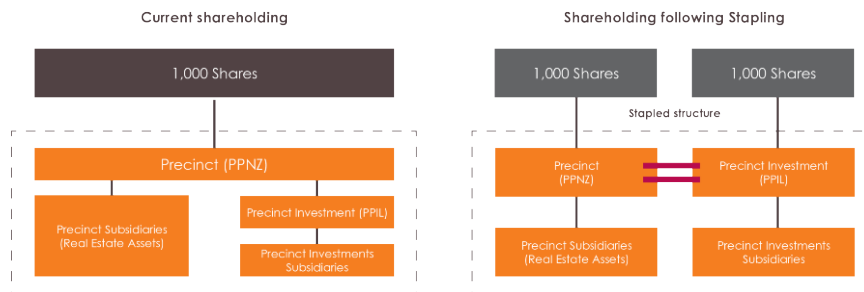
Is there a Precinct Board recommendation?

The Precinct Board fully supports the Stapling and unanimously recommends that Shareholders vote in favour of the Special Resolution to be put to them at the Special Meeting.

What will my Precinct Shareholding look like after the Stapling?

The diagram below shows an illustrative 1,000 shareholding in Precinct and how this shareholding will change after the Stapling.

The shareholder will retain 1,000 shares in Precinct and receive 1,000 shares in Precinct Investments. There is no change in the underlying assets represented by your shareholding.



Please refer to Part 6 *Tax and Dividend Information* for an illustration of the impact on expected dividends from each of these holdings.

What happens if the Stapling isn't approved? If Shareholder approval is not obtained, Precinct's Constitution will not be able to be amended. As a consequence, Stapling will not occur, Shareholders will not receive Precinct Investments Shares under the Distribution and Precinct will remain listed on the NZX Main Board but will not be a part of a Stapled group with Precinct Investments.

In addition, Precinct will be limited in its ability to pursue new growth opportunities and to grow its funds management and/or operational business in order to retain PIE status.

PART 2: KEY DATES

Latest time for receipt by Precinct of proxy forms	3:00pm Tuesday 9 May 2023
Record Date for voting on Stapling	5:00pm Tuesday 9 May 2023
Special Meeting of Shareholders to consider Stapling	3:00pm Thursday 11 May 2023
Effective Date of Stapling	Expected to be 1 July 2023
Stapled Securities commence trading on the NZX Main Board	Expected to be 3 July 2023

These dates, and future dates in this Explanatory Memorandum generally, are subject to change, are indicative only and, subject to the requirements of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules, may be amended by Precinct at its absolute discretion.

PART 3: DETAILS OF THE STAPLING

DESCRIPTION OF THE STAPLING

Current structure of Precinct

Precinct is currently listed on the NZX Main Board. Precinct is in the business of owning commercial property and holds a portfolio valued at approximately \$3.2 billion as at 31 December 2022.

Precinct holds this property through various property-owning subsidiaries. Precinct's management was internalised in early 2021 and Precinct currently manages its own portfolio. Prior to the Effective Date, Precinct and PPML will enter into a Management Agreement under the terms of which PPML will be appointed to manage the Precinct Group and its property portfolio. The key terms of the Management Agreement are described in Part 7 *Additional Information*.

Commercial objectives of the Stapling

Precinct's objective is to create a group structure that is "fit for future purpose". That is, it must support Precinct's ability to develop new property investment fund opportunities for potential property sector investors, expand its operational offering and make use of the existing property investment management services capabilities within Precinct to manage these new opportunities (in return for management fees).

The broad commercial rationale for the Stapling is to increase flexibility for Precinct's investment structure, operational business and property investment management services business.

Investment management provides Shareholders with additional returns by making use of Precinct's management capabilities. However, any effective investment and management structure will preferably maintain Precinct's current taxation status.

An important component of Precinct's company strategy is to grow its capital partnerships, future participation in a wider set of opportunities and large-scale vertical mixed-use development projects. The Stapling will ensure the fees generated through capital partnerships combined with operational businesses will benefit Shareholders without adversely affecting the PIE treatment that Shareholders receive from Precinct's property ownership business. Retaining Precinct's existing company structure will require Precinct to limit its strategic aspirations and opportunities. Precinct will be constrained in its ability to continue to grow its management and operational business or pursue new growth opportunities to adhere to PIE rules.

Taxation profile of Precinct and Precinct's investors

Precinct is a listed portfolio investment entity (PIE) under the Income Tax Act.

As a listed PIE, New Zealand tax is payable by Precinct on its taxable income at 28% (the New Zealand company taxation rate at the date of this Explanatory Memorandum).

The net effect of being a listed PIE is that Shareholders will not pay more than an effective rate of New Zealand tax of 28% on Precinct's underlying total income (including on distribution of this income to Shareholders), even if they have a 33% or 39% personal tax rate. Precinct's capital gains (if any) and any untaxed income (eg due to tax depreciation) can also be paid out tax free to investors. Therefore, there are important New Zealand taxation advantages to investors (particularly those

investors on personal tax rates of greater than 28%) from Precinct maintaining its listed PIE status.

In order to ensure that it remains a listed PIE, Precinct must comply with certain income and investment restrictions set out in the Income Tax Act.

Precinct must ensure that at least 90% of its total income is derived from property investments (or other qualifying investments, such as shares in its property holding subsidiaries) and be of a prescribed kind (eg, property rental income other than from associated parties, dividends or income from subsidiaries). Any non-qualifying income must be less than 10% of Precinct's total income.

Similarly, under the shareholding test, Precinct cannot hold greater than 20% shareholding interests in any entities that are not other PIEs, entities that may qualify for PIE status (ie are "PIE equivalents"), or "land investment companies" (ie property-owning subsidiaries of PIEs) unless the combined market value of these non-qualifying investments is 10% or less of the market value of Precinct's total investments.

Potential outcomes with current structure

The management services fees and operational revenue that Precinct earns do not qualify as the prescribed kinds of qualifying income for a PIE (non qualifying income). If Precinct directly derives more than 10% of its total income from non-qualifying income, it will lose PIE status. Similarly, if the non-qualifying income streams are earned by a wholly-owned subsidiary of Precinct, as that entity will not be a PIE, PIE equivalent or land investment company, Precinct's PIE status will be lost if the total market value of all the non-qualifying entities exceeds 10% of the market value of Precinct's total investments.

The loss of PIE status will have adverse consequences for all Shareholders. In this case, Precinct's future distributions (including the distribution of capital gain amounts that are currently able to be received by Shareholders without the need to pay further tax due to Precinct's current PIE status) will be taxable to Shareholders as dividends at personal tax rates of (currently) up to 39%.

If Precinct doesn't limit its strategic aspirations and opportunities then Precinct expects that the ratio of its non-qualifying income to total income could exceed the 10% limit under the PIE rules (if Precinct were to provide the management services or own operational businesses directly). Alternatively, if the management services or operational businesses continue to grow unlimited and are provided through wholly-owned subsidiaries, the value of the income streams are likely to mean that the aggregate market value of those subsidiaries will constitute more than 10% of the market value of Precinct's total investments. This will also cause a breach of PIE status.

Therefore, the current corporate structure (whereby property investment management services and operational businesses are provided directly by Precinct or through a wholly-owned subsidiary of Precinct) limits the scope for Precinct to pursue new growth opportunities, (such as third-party investment partnerships with associated management agreements), without breaching Precinct's listed PIE status.

PART 3: DETAILS OF THE STAPLING (CONTINUED)

Proposed solution

To ensure the corporate structure is available to support its commercial objectives, while also ensuring its PIE status can be maintained, Precinct proposes the Stapling. The Stapling involves the following steps:

- (a) On 14 December 2022, Precinct Investments was incorporated as a wholly-owned subsidiary of Precinct;
- (b) Before the Effective Date, Precinct and PPML will enter into the Management Agreement under the terms of which PPML will be appointed to manage the Precinct group and its property portfolio. The key terms of the Management Agreement are described in Part 7 *Additional Information*;
- (c) Prior to the Effective Date, Precinct will transfer the shares it holds in certain subsidiaries that do not qualify as PIE entities to Precinct Investments, creating an intercompany loan between Precinct and Precinct Investments;
- (d) On or about the Effective Date, Precinct will transfer to PPML all Precinct's employees, systems, fixed assets and other property associated with Precinct's property investment management services activities;
- (e) On or about the Effective Date, Precinct Investments will capitalise the intercompany loan created at step (c) above in consideration for the issue of 100 shares in Precinct Investments to Precinct;
- (f) In accordance with the Notice of Meeting accompanying this Explanatory Memorandum, Precinct is seeking the approval of Shareholders by Special Resolution to the amendments to the Constitution (available at <https://www.precinct.co.nz/corporate-governance> or upon request by emailing companysecretary@precinct.co.nz or phoning 021 294 3819) so that Precinct can give effect to the Precinct Stapling;
- (g) If Shareholder approval is obtained and the Precinct and Precinct Investments Boards decide to proceed with the Stapling:
 - i. Precinct Investments Shares and Precinct Shares will be Stapled;
 - ii. Precinct and Precinct Investments will enter into the Stapling Deed in order to give effect to the Stapling of Precinct Investments Shares and Precinct Shares. The key terms of the Stapling Deed are described in Part 7 *Additional Information*;
 - iii. each of Precinct and Precinct Investments will have new constitutions that contain provisions required to implement Stapling. A document showing the comparison of the proposed new version of Precinct's Constitution as a mark up against Precinct's current Constitution is available at <https://www.precinct.co.nz/corporate-governance> or upon request by emailing companysecretary@precinct.co.nz or phoning 021 294 3819;
 - iv. the Distribution will be authorised on a one-for-one basis so that Shareholders will hold equal numbers of Precinct Investments Shares and Precinct Shares. No consideration will be payable by Shareholders under the Distribution (ie Precinct

Investments Shares will be distributed to Shareholders for free). Shareholder approval is not being sought in connection with the Distribution, and the Distribution is not a "regulated offer" for the purposes of the FMC Act or FMC Regulations. Shareholders will not be able to refuse to accept the distribution to them of Precinct Investments Shares under the Distribution; and

- v. Precinct Investments will apply to be listed on the NZX Main Board, and Precinct Investments and Precinct will apply to have the Stapled Securities (ie Precinct Investments Shares and Precinct Shares) quoted on the NZX Main Board, and, if accepted, the Stapled Securities will commence trading under a single ticker code, "PCT", as a Stapled group.

The effect of the Distribution will be to transfer Precinct's shareholding in Precinct Investments to Shareholders, so that Precinct will not have potentially non-qualifying subsidiaries impacting its PIE status.

If Shareholder approval is not obtained, Precinct's Constitution will not be able to be amended. As a consequence, Stapling will not occur, Shareholders will not receive Precinct Investments Shares under the Distribution and Precinct will remain listed on the NZX Main Board but will not be a part of a Stapled group with Precinct Investments.

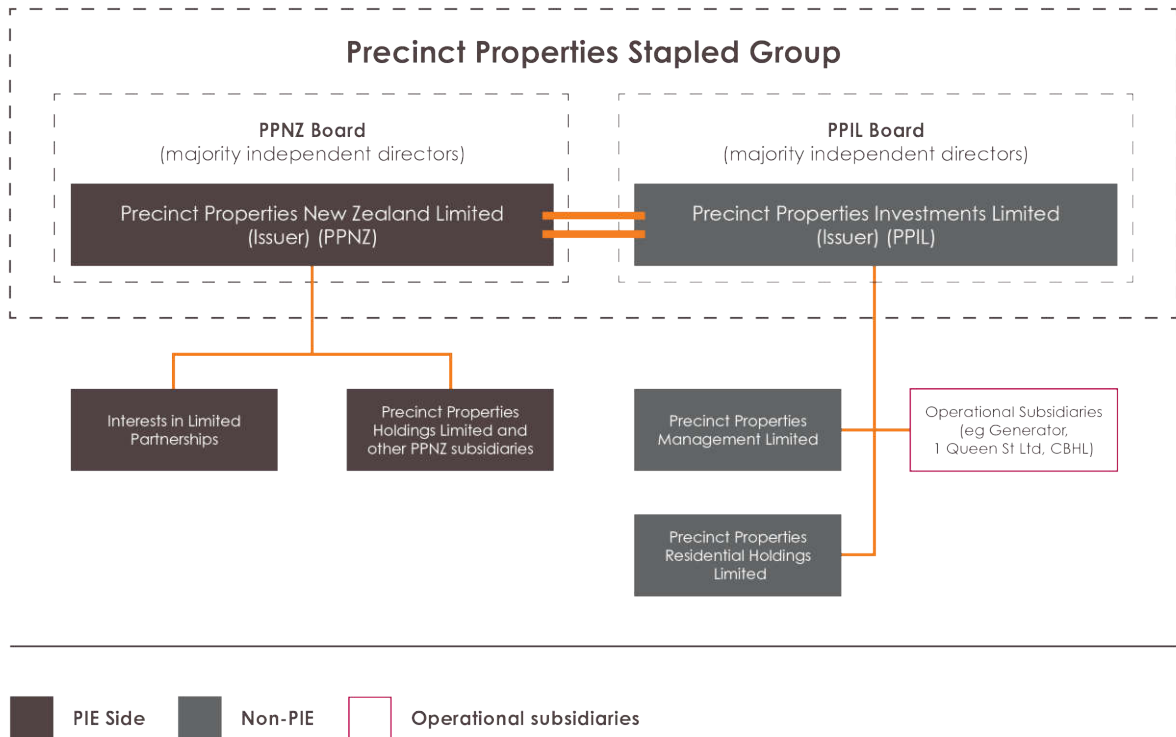
In addition, Precinct could be limited in its ability to pursue new growth opportunities (as detailed above) and in pursuing such opportunities could put Precinct's PIE status at risk.

Potential disadvantages with proposed solution

The potential disadvantages of the Stapling include:

- (a) Shareholders may have additional tax to pay on the dividends from Precinct Investments (eg if they have a personal tax rate higher than the company tax rate) whereas they do not currently have any additional tax on dividends from Precinct, including on distribution of management fee income due to Precinct's PIE status;
- (b) The Stapling will result in increased complexity within the Precinct Properties Group;
- (c) Precinct has a binding tax ruling (the Ruling) from Inland Revenue (IR) in relation to the Stapling and its impact on Precinct's PIE status, which is valid for a period of five years. There is no guarantee that the ruling will be renewed or that the taxation law will not change in a way that adversely affects Stapling and Precinct's PIE status; and
- (d) Management services provided by PPML to Precinct will need to be demonstrated as being on arms' length terms to comply with the requirements of the Ruling (as well as being in the best interests of each of them in accordance with usual company law requirements). This may mean that Precinct and Precinct Investments may need to engage an independent advisor to review transactions from time to time, and potentially reduces the flexibility that they currently have as members of the Precinct Properties Group.

FIGURE 2: PROPOSED STRUCTURE OF PRECINCT PROPERTIES GROUP AND MANAGED ENTITIES



Summary of Stapling

Stapled securities are investments that are contractually or constitutionally bound together so that they cannot be separated. The essential nature of a stapled security is that one element cannot be transferred without the other element(s).

If the Stapling is approved by Shareholders, Precinct will implement Stapling and the Stapled Securities (ie Precinct Investments Shares and Precinct Shares) would form a single saleable unit that would trade on the NZX Main Board under a single ticker code, "PCT". The effect is that the Precinct Investments Shares and Precinct Shares would only be able to be traded together. As such, the Stapled Securities and Precinct Properties Group should be viewed as a single security in a single group (albeit, comprising two set of shares in two different corporate entities).

While Stapling applies:

- The number of Precinct Investments Shares and Precinct Shares on issue must, at all times, be the same;
- If further Precinct Investments Shares or Precinct Shares are issued, they must be issued with a matching number of Precinct Shares or Precinct Investments Shares, as applicable;
- If Precinct Investments Shares or Precinct Shares are bought back or cancelled, a matching number of Precinct Shares or

Precinct Investments Shares, as applicable, must be bought back or cancelled from the same Shareholder(s); and

- No transfer of any Precinct Investments Shares or Precinct Shares can be registered unless there is a matching transfer from the same Shareholder of the same number of Precinct Shares or Precinct Investments Shares, as applicable.

However, Stapling would not affect the rights attaching to each of the Precinct Investments Shares and Precinct Shares under the Companies Act. Relevantly for Shareholders, the votes attached to:

- Precinct Shares may only be exercised in respect of resolutions of Precinct and may not be exercised in respect of resolutions of Precinct Investments; and
- Precinct Investments Shares may only be exercised in respect of resolutions of Precinct Investments and may not be exercised in respect of resolutions of Precinct. However, as Shareholders would hold Precinct Investments Shares and Precinct Shares, they will in effect be able to participate in and vote at meetings of both Precinct and Precinct Investments in their capacity as a shareholder of each company.

The practical impacts of a Shareholder holding a Stapled Security include that:

PART 3: DETAILS OF THE STAPLING (CONTINUED)

- Each Shareholder will also become a Shareholder in Precinct Investments;
- In order to dispose of Precinct Investments Shares or Precinct Shares, the corresponding Precinct Share or Precinct Investments Share, as applicable, would also need to be transferred to the same transferee;
- Market disclosures via NZX may be made in respect of Precinct Properties Group, but Precinct and Precinct Investments will continue to be obliged to make announcements under the Listing Rules according to the nature of the disclosure (eg announcements about the declaration of a dividend or the passing of a resolution at a meeting of Shareholders would be made by the relevant company);
- The only quoted price of Precinct Shares and/or Precinct Investments Shares on the NZX Main Board will be the quoted price for Stapled Securities;
- The materiality of "Material Information" for continuous disclosure purposes under the Listing Rules will be assessed against the potential effect on the price of Stapled Securities as there will not be a separate quoted price available for each of Precinct and Precinct Investments;
- Under an exemption to be sought from the Financial Markets Authority, group financial statements would be prepared and published in respect of Precinct Properties Group rather than separate group financial statements for each of Precinct and Precinct Investments;
- A holder of a Stapled Security would be entitled to attend, or vote by proxy, at the separate meetings of Shareholders of each of Precinct and Precinct Investments. For some transactions involving Precinct Properties Group (eg an issuance of shares being made with Shareholder approval under the Listing Rules), resolutions might be required from the Shareholders of each of Precinct and Precinct Investments in respect of the same matter. In that case, the relevant transaction will only be able to proceed if Shareholders of both Precinct and Precinct Investments approve the respective resolutions; and
- Distributions would be received from each of Precinct and Precinct Investments.

Shareholders would separately be entitled to receive:

- Any dividends or other distribution on Precinct Investments Shares based only upon their holding of Precinct Investments Shares; and
- Any dividends or other distribution on Precinct Shares based only upon their holding of Precinct Shares.

These dividends of Precinct and Precinct Investments would be separate, reflecting the fact that they are separate legal entities for the purposes of the Companies Act. The New Zealand taxation treatment of the respective distributions from Precinct and Precinct Investments will reflect each company's tax status. See page 19. In addition to the returns that Shareholders, as holders of Stapled Securities, would receive from the dividends or other distributions received in respect of their Precinct Investments Shares and Precinct Shares, returns would be

received from any increase in value of the price of the Stapled Security on the NZX Main Board upon a disposal of the Stapled Security.

Implementation of Stapling

If the Stapling is approved by Shareholders, each of Precinct Investments and Precinct will adopt a new constitution which incorporates provisions that will staple the Precinct Shares and Precinct Investments Shares together. A document showing the comparison of the proposed new version of Precinct's Constitution as a mark up against Precinct's current Constitution is available at <https://www.precinct.co.nz/corporate-governance>, and, by way of summary, will include that:

- No Precinct Shares will be issued without a corresponding issue of Precinct Investments Shares (and vice versa);
- Any transfer of Precinct Shares by Shareholders will not be accepted unless there is a corresponding transfer of Precinct Investments Shares to the same transferee at the same time (and vice versa); and
- If Precinct (or Precinct Investments) cancels, buys-back or redeems a Precinct Share or a Precinct Investments Share (as applicable), a corresponding and simultaneous cancellation, buy-back or redemption must be made in respect of the other component of the Stapled Security.

If the amendments to the Constitution are adopted, Precinct and Precinct Investments will enter into and give effect to the Stapling Deed. The Stapling Deed is intended to coordinate certain operational matters that Precinct and Precinct Investments have identified as requiring a joint decision of both the Precinct and Precinct Investments Boards. The key terms of the Stapling Deed are summarised in Part 7 *Additional Information*.

To give effect to Stapling, and only if the Stapling is approved by Shareholders, Precinct will make the Distribution of all the Precinct Investments Shares it holds in Precinct Investments to Shareholders on a one-for-one basis. The Distribution, which will be a transfer of Precinct Investments Shares to Shareholders for free, will result in Precinct Investments being owned by the Shareholders and ceasing to be a wholly-owned subsidiary of Precinct.

As a result of the Distribution, Shareholders will hold equal numbers of Precinct Shares and Precinct Investments Shares.

Waivers granted by NZ RegCo to facilitate listing of Precinct Properties Group

NZ RegCo has granted various waivers and rulings from the Listing Rules to facilitate the listing of the Precinct Properties Group. Stapled Securities are intended to be quoted on the NZX Main Board under a single ticker, "PCT", from the date of distribution of Precinct Investments Shares to Precinct Shareholders. A summary of the waivers and rulings granted is set out in Part 8 *Additional Information*.

Binding Tax Ruling on Stapling

To ensure there are no adverse consequences from the Stapling for Precinct's listed PIE status, Precinct sought and has received a Binding Tax Ruling (the **Ruling**) from Inland Revenue (**IR**) that the Stapling of Precinct Shares and Precinct Investments shares will continue to allow Precinct to meet the relevant PIE eligibility requirements to retain PIE status.

The Ruling is subject to the following conditions:

- Income derived by Precinct Properties Holdings Limited, including as partner in the Bowen Investment Limited Partnership, from Generator New Zealand Limited, Commercial Bay Hospitality Limited, Precinct Properties 1 Queen Street Limited and PPML will be less than 10% of Precinct Properties Holdings Limited's total income.
- Income derived by PPNZ Pacific Investment Limited, as a partner in the Precinct Pacific Investment Limited Partnership, from Generator New Zealand Limited, Commercial Bay Hospitality Limited and PPML will be less than 10% of PPNZ Pacific Investment Limited's total income.
- The shares in Precinct Pacific Investment (GP) Limited will be less than 10% of the market value of PPNZ Pacific Investment Limited's total investments.
- The shares in Bowen Investment (GP) Limited will be less than 10% of the market value of Precinct Properties Holdings Limited's total investments.
- Income derived by Precinct from Generator New Zealand Limited, Commercial Bay Hospitality Limited and PPML will be less than 10% of Precinct's total income.
- The shares in Precinct Properties Wynyard Limited, Precinct Pacific Investment (GP) Limited, Bowen Investment (GP) Limited and in any entity owned directly or indirectly by Precinct that carries on land development activities, will, in aggregate, be less than 10% of the market value of Precinct's total investments.
- Income derived by Downtown Special Purpose Vehicle, as a partner in the Downtown Office Limited Partnership, from Generator, Commercial Bay Hospitality Limited and PPML will be less than 10% of Downtown Special Purpose Vehicle's total income.
- The shares held by Downtown Special Purpose Vehicle in the general partner for the Downtown Office Limited Partnership will be less than 10% of the market value of Downtown Special Purpose Vehicle's total investments.

The Ruling is subject to the validity of certain facts about the Stapling that were provided by Precinct to IR, and compliance with certain conditions outlined in the Ruling. The Ruling is valid for a period of five years from the date of the ruling (11 April 2023) and will need to be renewed thereafter.

Tax effects of Stapling

Precinct will be a listed PIE at the time of the Distribution. If the Stapling is approved, the Distribution will not be a taxable dividend and there should be no adverse New Zealand taxation consequence as a result of the distribution to Shareholders

Following the Stapling:

- Precinct would continue to be a listed PIE for New Zealand taxation purposes. Accordingly, Shareholders should see no difference in the tax treatment of their Precinct Shares.
- Precinct Investments will be an ordinary company for New Zealand taxation purposes. This means:
 - Precinct Investments would pay tax on its net taxable income at 28% (or the New Zealand company taxation rate at the time, if different).
 - Tax paid on Precinct Investments' income will generate imputation credits, which can be attached to dividends (if any) paid by Precinct Investments to Shareholders.
 - Withholding taxes (ie resident withholding tax and non-resident withholding tax, as appropriate) may be deducted from dividends and other distributions to Shareholders in Precinct Investments.

In summary, New Zealand resident holders of Precinct Investments Shares will be taxed on dividends paid on their Precinct Investments Shares at their marginal tax rates (up to 39% based on current personal tax rates), with a tax credit for imputation credits and resident withholding tax deducted (if any). Non-resident holders of Precinct Investments Shares will have non-resident withholding tax deducted, but may receive a supplementary dividend to offset any New Zealand withholding tax if Precinct Investments elects, and is able, to utilise the Foreign Investor Tax Credit regime. If a Shareholder holds their Stapled Securities on revenue account, the sale of the Stapled Securities may give rise to taxable income. A Shareholder will hold Stapled Securities on revenue account if they acquired those Stapled Securities with the intention or purpose of selling them or they are in the business of dealing in shares. Revenue account treatment for the Stapled Securities could also arise in other circumstances. Therefore, investors should seek professional taxation advice about their personal circumstances.

The following table sets out a comparison of the key features of each of Precinct and Precinct Properties Group.

PART 3: DETAILS OF THE STAPLING (CONTINUED)

TABLE 1: COMPARISON OF PRECINCT AND PRECINCT PROPERTIES GROUP

	Precinct as listed on date of this Explanatory Memorandum	Precinct Properties Group as proposed on the date of completion of the Stapling
Listing	Listed on NZX Main Board	Listed on NZX Main Board
NZX Ticker	PCT	PCT
Type of security	Ordinary Share	One Ordinary Share in Precinct + One Ordinary Share in Precinct Investments
Transferability	Freely transferable	Freely transferable as a parcel of one Precinct Share + one Share in Precinct Investments
Dividends	From Precinct only	From Precinct and from Precinct Investments
Voting	One vote per Precinct share	One vote per Precinct Share on Precinct resolutions One vote per Precinct Investments Share on Precinct Investments resolutions
Board of Directors	One Board with the following Directors: Craig Stobo (Chair), Anne Urlwin, Chris Judd, Graeme Wong, Mark Tume and Nicola Greer	Two separate Boards, each with the following directors: Craig Stobo (Chair), Anne Urlwin, Chris Judd, Graeme Wong, Mark Tume and Nicola Greer
Chief Executive Management	Scott Pritchard Managed internally by Precinct	Scott Pritchard Managed within the Precinct Properties Group by PPML by the same management team that conducts management of Precinct as at the date of this Explanatory Memorandum
Annual meetings	Once per year (October/November)	Combined meeting to be held once per year (October/November); Formal business for each company to be addressed consecutively
Annual Reports	Once per year (July/August)	Combined annual report to be issued once per year (August) with separate sections responding to statutory requirements for each company
Financial Reporting	Financial statements would be prepared and provided to Shareholders for the Precinct consolidated group (Precinct plus Precinct Investments and other subsidiaries)	Financial statements would be prepared and provided to Shareholders for Precinct Properties Group Precinct has sought an exemption from the Financial Markets Authority to facilitate this.

Conditions precedent to Stapling

The implementation of the Stapling is subject to certain conditions precedent, including:

- Shareholder approval of the Stapling (as described in the Special Resolution in the Notice of Meeting); and
- The Boards of Precinct and Precinct Investments giving their approval to the Stapling (as described in the Notice of Meeting).

Strategic options if the Stapling does not proceed

If Shareholders do not approve the Special Resolution, Stapling will not be able to be implemented in the form proposed. There are a range of alternatives available if the Special Resolution is not approved. Each alternative has certain disadvantages for Shareholders, when compared to the Stapling. Alternatives that the Precinct Board may consider, in order of likelihood, are set out below. There is no certainty that the Precinct Board will decide to pursue any of the alternatives listed below, or further alternatives, and if it does, the likely timeframe for implementation of the alternative proposals are uncertain.

Loss of PIE status if Precinct pursues growth in property investment management services business

The Precinct Board considers that it will not be in the interests of Precinct or Shareholders for Precinct to lose its listed PIE status without a compelling growth opportunity for the management services and operational business that offsets the adverse tax consequences for investors from the loss of PIE status. If the

Stapling is not approved, the Precinct Board may continue to explore compelling management services and operational growth opportunities for the Precinct business even if that means Precinct's PIE status may be lost.

Retention of PIE status but no growth in Precinct's property investment management services business

An option would be to maintain the existing level of Precinct's management services and operational business, with a focus on continuing to derive returns from commercial property ownership. However, this will constrain future opportunities, by limiting scope to provide property investment management services to new funds or to further grow the Group's operational businesses.

Generally, a commercial property ownership business is more capital intensive than a business with a material funds and property management segment, and is expected to result in lower returns on capital than if the Stapling is approved (see Part 6 Tax and Dividend Information).

PART 4: THE STAPLED GROUP

Precinct Properties Group

Descriptions of each of the Precinct and Precinct Investments businesses are set out further below. If the Stapling is approved, Precinct Shareholders will not need to take any further steps in order to become holders of Precinct Investments Shares as well as Shareholders.

Business of Precinct

Precinct is a city centre specialist and the largest owner, developer and manager of real estate in Auckland and Wellington.

Precinct has strong and experienced property management and development capability and is committed to transforming spaces to deliver premium property solutions. Following the internalisation of Precinct's management in early 2021, the business has been able to establish capital partnerships to support the advancement of Precinct's long-term strategy, enabling Precinct to participate in a wider set of opportunities.

Clients include many of New Zealand's leading businesses and government organisations. Precinct creates places for businesses to thrive and understand the value of mixed-use spaces that incorporate public amenity.

Precinct targets long-term sustainable returns to Shareholders. Annualised 5-year dividend growth of 3.65% has been achieved.

Dividend Policy

The proposed dividend policy for Precinct Properties Group, to be adopted upon completion of the Stapling, is the same as the existing Precinct dividend policy. More information on the current dividend policy can be found at www.precinct.co.nz.

The payment and amount of any future dividends will however be at the discretion of the respective Boards of Precinct and Precinct Investments after taking into account such factors as the relevant Board deems relevant at the time. Any departure from the dividend policy for Precinct Properties Group will be notified to holders of Stapled Securities via NZX.

Business of Precinct Investments

Precinct Investments was formed on 14 December 2022 as a wholly-owned subsidiary of Precinct. Once Stapling has been implemented, Precinct Investments will wholly own the following subsidiaries:

- Generator New Zealand Limited (GNZ) – New Zealand's premier coworking and shared space provider;
- Precinct Properties Management Limited (PPML) – PPML acts as investment manager for the funds and property management of assets;
- Precinct Properties 1 Queen Street Limited (1 Queen) – InterContinental Auckland hotel operating subsidiary;
- Commercial Bay Hospitality Limited (CBHL) – hospitality venue operating subsidiary; and
- Precinct Properties Residential Holdings Limited (PPRHL) – owner of 50% interest in residential development management joint venture with Lamont & Co (LCO Management Limited) to form Precinct Properties Residential Limited (PPRL).

PPML was formed on 10 February 2022 to provide investment property management services. As at the date of this Explanatory Memorandum, PPML is the exclusive manager of:

- Precinct Pacific Investment Limited Partnership (PPILP) - three assets in Auckland (including one currently under development) and two assets in Wellington (including one currently under contract);
- Bowen Investment Limited Partnership (BILP) - one asset in Wellington currently under contract; and
- Precinct (subject to Shareholder and Board approval of Stapling) - current portfolio value of \$3.2 billion.

PPML's management team has a strong track record and proven experience in undertaking property investment management activities, having managed Precinct's own property portfolio.

PPML will manage assets that are wholly-owned by Precinct as well as assets where Precinct has a minority stake (such as PPILP and BILP). Potentially, PPML may in the future also manage assets in which Precinct has no ownership stake. A conflicts management policy and process are in place to manage potential conflicts of interest between each of these different stakeholders.

Revised strategy

Precinct's revised strategy enabled Precinct to participate in a wider set of opportunities to create value for Shareholders. Precinct's investment strategy is focussed on Precinct's core portfolio and Precinct Investments, which includes its capital partnerships and Generator.

As Precinct continues to work with its capital partners and consider future opportunities, the active management of Precinct's high-quality portfolio is supporting both the evolution and execution of this strategy. Precinct's business is well aligned to deliver long-term outperformance through development activities and leveraging capital partnerships to drive higher returns on capital.

Precinct remains focussed on our people and partners, operational excellence and developing the future.

Precinct's investment strategy and sustainable value is based on the following principles of success:

- Focusing on concentrated ownership in strategic locations;
- Maintaining and growing great client relationships;
- Investing in quality, both in assets and environments;
- A long-term view; and
- Identifying, cultivating, and maintaining strong long-term capital partnerships.

The Stapling is intended to facilitate growth in capital partnerships and future participation in a wider set of opportunities, including vertical mixed-used development. The outcome of Stapling ensures the fees generated through capital partnerships combined with operational businesses will benefit Shareholders without adversely affecting the PIE tax treatment that Shareholders receive from Precinct's property-ownership business. Retaining Precinct's existing company structure will require Precinct to limit its strategic aspirations and opportunities.

PART 4: THE STAPLED GROUP (CONTINUED)

Precinct will be constrained in its ability to continue to grow its management and operational business or pursue new growth opportunities to adhere to PIE rules.

PART 5: THE BOARDS AND MANAGEMENT OF THE STAPLED GROUP

The Boards of Directors

If Shareholders approve the Stapling and Stapling is implemented, Precinct Properties Group will be governed by the Boards of Precinct and Precinct Investments, which will each comprise of the same members. This two-Board structure recognises the fact that Precinct Properties Group will operate as if it were a single economic entity and will provide Precinct Investments with the benefit of the experience and skill set of the current Precinct Board.

The proposed constitution of Precinct Investments under the Stapling provides that any Director who is appointed to (or removed from) the Precinct Board is automatically appointed to (or removed from) the Precinct Investments Board. Shareholders will vote on the appointment of the Precinct Directors in the usual way (ie by Ordinary Resolution) and the Precinct Board may appoint directors to fill any casual or other vacancy on the Precinct Investments Board. The NZX waivers include a waiver from Listing Rules 2.2 to 2.5 and 2.7 to 2.8 to allow Precinct Properties Group to have Boards made up of the same members. More detail on the NZX waivers is set out in Part 7 *Additional Information*.

Precinct and Precinct Investments believe that the board structure of Precinct Properties Group is appropriate in the case of Stapled Securities. Precinct Investments wishes to eliminate any disconnect between the management of Precinct (by PPML) and Precinct's strategic direction (as determined by its Board). The proposed board structure is essential to ensure this is the case and reflects the intention that Precinct Properties Group operates as a single economic entity.

Precinct Properties Group will have experienced and balanced Boards. Its members collectively contribute a diverse range of skills and backgrounds, including executive and governance roles at various property ownership and management companies and publicly listed companies.

The Boards comprise an independent chairperson and five other independent directors. Details of the current directors can be found on Precinct's website: <https://www.precinct.co.nz/about>

The Management Agreement

Under the terms of the Management Agreement, Precinct will appoint PPML (the "Manager") as the exclusive provider to Precinct of ongoing management services from the Effective Date of Stapling.

The Manager's duties are to manage and supervise, and protect Precinct's interests in relation to, each property and to provide general administration and management services to Precinct in accordance with the Management Agreement. The Management Agreement will continue unless the Management Agreement is terminated by either Precinct or PPML in accordance with its provisions. The Manager has a right to terminate the Management Agreement without cause on six months' notice. Either Precinct or PPML may terminate the Management Agreement by giving notice on the occurrence of certain events, including events such as liquidation, receivership, insolvency, composition with creditors, appointment of a statutory manager or a material breach of material provisions of the Management Agreement.

In return for the performance of its duties as manager of Precinct, PPML is entitled to be paid the following fees (plus GST, if any) summarised below, with effect from the Effective Date:

- An asset management fee of 0.35% of the portfolio value (calculated on a daily basis);
- On a purchase or sale of a property, an acquisition and divestment fee of 1% of the agreed purchase price of such property or, if the property is acquired from PPML or any related company of PPML, 0.5% of the agreed purchase price of such property;
- Where PPML arranges a new lease (other than a retail lease) a leasing fee of:
 - 11% of average annual rental payable under the lease for the term, if the term of the lease is less than three years;
 - 12% of average annual rental payable under the lease for the term, if the term of the lease is three years;
 - 12% of average annual rental payable under the lease for the term, plus 1% for each year or part thereof over three years, up to a maximum of 20% of average annual rental payable under the lease for the term, if the term of the lease is more than three years
- A retail management fee of 3.5% of gross rent per annum under each retail lease;
- A property and facilities management fee which comprises, in respect of any property, an amount equal to the costs of property and facilities management plus a 10% margin;
- A marketing services fee of an amount equal to the costs of providing marketing services plus a 10% margin;
- A development fee of up to 4% of the total development cost (subject to certain exclusions) and a project management fee of between 2% and 6% of project costs (subject to certain exclusions) for any development, project or other work of a capital nature; and
- An additional services fee, to be determined on a case-by-case basis.

Prior to PPML ceasing to be wholly-owned by Precinct, in place of payment of fees, PPML's operating costs and expenses applicable to management services carried out under the Management Agreement are reimbursed by Precinct on a cost recovery basis.

Senior managers

PPML's senior managers will include the executive team identified in the Directory and detailed on Precinct's website: <https://www.precinct.co.nz/about>.

PART 6: TAX AND DIVIDEND INFORMATION

As Precinct executes its strategy to grow its management services and operational businesses it is expected that Precinct's non-qualifying income (derived directly or through its wholly-owned subsidiaries) will grow. Therefore, Precinct's existing group structure does not provide the required flexibility for Precinct to create, manage and grow new opportunities and adhere to a PIE status. The separation of Precinct's management services and operational businesses from its property ownership business and the Stapling of these businesses together would therefore provide this flexibility to pursue Precinct's growth strategy through Precinct Investments without putting Precinct's listed PIE status at risk.

An illustrative example of the impact of the Stapling on dividends is outlined below.

It shows the impact on the FY23 dividend payment under the current structure compared with a Stapled Structure.

Illustrative example

- Based on FY23 dividend guidance of 6.70 cents per share
- Precinct and Precinct Investments's tax rate is 28% for the FY23 year
- The analysis assumes Precinct and Precinct Investments' share of FY23 Distributable Profit, and therefore dividend, is assumed to be 93% and 7% respectively

	Existing	Stapled structure							
		Proforma dividend split		Investor personal tax rate					
		PPNZ	PPIL	10.5%	17.5%	30.0%	33.0%	39.0%	
Dividend to Shareholders									
Net Dividend	6.70	6.26	0.44	6.70	6.70	6.70	6.70	6.70	6.70
Imputation Credits	-	-	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Gross Dividend	6.70	6.26	0.52	6.78	6.78	6.78	6.78	6.78	6.78
Excluded PIE income	6.70	6.26	-	6.26	6.26	6.26	6.26	6.26	6.26
Gross imputed dividend	-	-	0.52	0.52	0.52	0.52	0.52	0.52	0.52
RWT/personal tax @ investor tax rate (cps)	N/A	N/A	N/A	-	0.01	0.07	0.09	0.12	0.12
Investor after tax dividend (entity level)	6.70	N/A	N/A	6.70	6.69	6.62	6.61	6.58	6.58
Dilution from stapled structure					(0.1%)	(1.1%)	(1.3%)	(1.8%)	(1.8%)
Breakeven non qualifying income					\$0.2 m	\$1.7 m	\$2.1 m	\$3.1 m	\$3.1 m

The table above shows the amount of additional non-qualifying income that PPIL would need to derive to return each investor tax payer to the existing after tax dividend amount. This break-even non-qualifying income is between \$0 and \$3.1 million and could be made up of a combination of Precincts different non-qualifying income sources.

Details of Precinct's current and future non-qualifying income sources are:

Source	Description	Current ¹	Strategic Opportunities
Operating businesses	<p>Income derived from the provision of flexible and co-working space and hospitality services.</p> <p>Income derived from operating InterContinental Hotel Auckland at 1 Queen Street.</p>	<p>Generator has 2,100 members across 18,700 sqm of office space and 2,720 sqm of events space. 90% of revenue is derived from membership income while 10% is from event venue hire. EBITDA for the six months to 31 December 2022 was \$1.3 million.</p> <p>Commercial Bay Hospitality has two venues operating within Commercial Bay Retail and EBITDA for the six months to 31 December 2022 was \$0.1 million.</p> <p>InterContinental Hotel Auckland will have 139 rooms and commence operating in 2024.</p>	<p>Generators revenue and EBITDA contribution is expected to increase compared to previous financial years.</p> <p>The business continues to assess further growth opportunities for new Generator sites.</p> <p>There is currently no intention for further growth in the size of Commercial Bay Hospitality or InterContinental Hotel Auckland.</p>
Funds management	<p>Income derived from providing funds management services to both passive and active investment funds.</p> <p>Funds management agreements typically incorporate the core base services of property management, facilities management and accounting support.</p> <p>Income sources under these agreements include:</p> <ul style="list-style-type: none"> • Asset management fees • Property and facilities management services fees • Retail management fees • Leasing fees • Marketing services fees • Acquisition and divestment fees 	<p>Precinct Pacific Investment Limited Partnership (passive investment fund) current total assets of \$700 million.</p> <p>Bowen Investment Limited Partnership (passive investment fund) current committed total assets of \$240 million.</p>	<p>Precinct continues to explore further funds management opportunities. These include:</p> <ul style="list-style-type: none"> • Expected increase in current investment partnerships • Creation of new investment partnerships (both passive and active)
Development management services	<p>Income derived from providing development management services.</p> <p>These services essentially involve all phases of a development project from master planning through to handover of the completed product.</p> <p>Development management fees are commonly charged as a percentage of cost.</p>	<p>PPML is currently contracted to provide development management services to Precinct Pacific Investment Limited Partnership for the management of the \$315 million Wynyard Quarter Stage 3 development.</p>	<p>Increase in the value and number of development management agreements in relation to future opportunities to be developed off balance sheet with external capital partners.</p>
Residential development participation and management services	<p>Income from the origination and delivery of residential development projects.</p> <p>Income from sale of residential apartments derived through investment in joint venture partnerships.</p>	<p>Precinct Properties Residential Limited (joint venture with Lamont & Co) has development management agreements in place for the current pipeline of over 300 units across four projects with 100 units under construction. The project cost of the four residential projects is over \$380 million.</p> <p>The current pipeline is fully funded from external investors and Precinct has no capital investment committed to this.</p>	<p>Grow Precinct Properties Residential Limited to create a valuable high-quality multi-unit residential development business.</p> <p>Capital participation in future residential development projects.</p>

¹ Figures as at 31 December 2022

The Stapling is therefore the preferred structure when compared to the current structure as it allows Precinct to continue to pursue growth in non-qualifying income and investments without the limitations imposed by the PIE eligibility rules. In the illustrative example, the Stapling becomes advantageous to Shareholders with personal tax rates of greater than 28% once an additional dividend (net of taxes) of 0.12 cps or higher (attributable to non-qualifying income growth) is payable by Precinct Investments.

PART 7: ADDITIONAL INFORMATION

Summary of the Stapling Deed

(a) The Stapling Deed sets out the terms and conditions of the relationship between Precinct and Precinct Investments.

(b) Each of Precinct and Precinct Investments agree that they will cooperate with the other to the fullest extent, which includes ensuring there is:

- i. free disclosure of information between the parties on a confidential basis, including disclosure of information provided to holders of Stapled Securities;
- ii. full cooperation between the parties to ensure that each complies with its obligations under the Listing Rules, Companies Act, FMC Act and otherwise;
- iii. agreement on any proposed restructuring of capital, including changing of the Stapling arrangements or Stapling of additional securities;
- iv. fair apportionment of costs incurred for or on behalf of Precinct Properties Group; and
- v. arm's length dealings between Precinct and Precinct Investments at all times, unless otherwise agreed by the respective boards.

(c) The Stapling Deed also provides, contractually, that each of the Stapled Entities are required to ensure that:

- i. the number of Precinct Shares and Precinct Investments Shares on issue are the same at all times;
- ii. no Precinct Shares may be issued, acquired or redeemed by Precinct without a corresponding issue, acquisition or redemption (as applicable) of Precinct Investments Shares by Precinct Investments (and vice versa);
- iii. no Precinct Shares may be transferred by holders without a corresponding transfer of Precinct Investments Shares (and vice versa); and
- iv. the Stapled Securities will be quoted as a Stapled Security on the NZX Main Board at all times; but
- v. the Stapled Entities will remain separate legal entities and each will be separately admitted to being listed on the NZX Main Board by NZX.

(d) Where any Precinct Shares or Precinct Investments Shares are issued, acquired, redeemed or otherwise dealt with by the Stapled Entities, the Stapling Deed provides the basis of allocating the consideration to be received or paid (as applicable) by Precinct Properties Group. The Stapling Deed provides that Precinct and Precinct Investments will agree from time-to-time the issue/acquisition price, and this price must be applied evenly across all holders of Stapled Securities. In the event of a dispute, an independent accountant will be appointed to resolve the issue.

(e) The Stapling Deed also provides that, if it was desired or necessary (e.g., due to changes in law or an insolvency event) that the Stapled Securities be Unstapled, this will require a special resolution of Shareholders or a Board resolution (respectively) to implement. Each of Precinct and Precinct Investments will be obliged to follow certain procedures in the event of Unstapling.

Other information relevant to Precinct Properties Group

Precinct is a party to a listing agreement with NZX and, if the Stapling is approved by Shareholders and the Board, Precinct Investments will enter into a listing agreement with NZX. If Stapling is approved, both of Precinct and Precinct Investments would be listed on the NZX Main Board and each will be subject to obligations imposed on "Issuers" under the Listing Rules, (subject to the NZX waivers and rulings described below).

However, Precinct Properties Group would be quoted under a single ticker code, "PCT", and a single price would apply to the Stapled Securities. If the Stapling is agreed, Shareholders should use the ticker code for Precinct Properties Group for information relevant to Precinct Properties Group.

Each of Precinct and Precinct Investments will be subject to regular reporting and disclosure obligations under the terms of the FMC Act and Listing Rules. In particular, Precinct is obliged and, if the Stapling is approved by Shareholders, Precinct Investments will be obliged (subject to certain exceptions) to immediately release to NZX any information that a reasonable person would expect to have a material impact on the price for the Stapled Securities, if it were generally available to the market. Precinct expects that information material to Precinct will also be material to Precinct Investments. NZX has therefore agreed that material disclosures relating to the Stapled Entities will be made on a consolidated basis. Information released pursuant to this obligation will be available to the public from NZX.

Information relating to the Stapled Entities that would not materially affect the price for Stapled Securities may change from time to time. Such information will be available on Precinct's website at www.precinct.co.nz, by contacting Precinct as set out in the Directory or under the ticker code for Precinct Properties Group.

Listing Rule Waivers and Rulings

NZ RegCo has agreed that certain provisions of the Listing Rules will not apply to Precinct Properties Group, or will apply in a different manner than is usual for listed companies.

NZ RegCo has granted, subject to conditions, waivers from or made rulings in respect of and granted approval to amendments to, a number of Listing Rules in connection with the Stapling:

- A ruling that the Directors do not have a "Disqualifying Relationship" as a consequence of their appointment as Directors of Precinct Investments under Precinct Properties Group structure, in order to allow the Independent Directors of Precinct Investments to also be Independent Directors of Precinct, as required by the Listing Rules;
- A waiver from Listing Rules 2.2 to 2.5 and 2.7 to 2.8 to permit:
 - the Precinct Board and Precinct Investments Board to be made up of the same people;
 - the Precinct Investments Board to be deemed to be appointed (or removed) if appointed to (or removed from) the Precinct Board; and

- the Precinct Investments Board members to retire from the Precinct Investments Board by rotation at the same time as they retire from the Precinct Board;
- A waiver from Listing Rule 2.10.1 to permit the Directors of one Stapled Entity to vote on matters in which they are "interested" due to being a Director of the other Stapled Entity. Directors will not be permitted to vote on matters in which they are "interested" by virtue of a relationship or interest other than their directorship of the Stapled Entities;
- A ruling that, for the purposes of Listing Rule 2.11, a reference to "Issuer" shall be a reference to Precinct or Precinct Investments, so as to permit the pooling of Director remuneration for Precinct Properties Group, and the approval of Director remuneration by way of single resolution of shareholders;
- A waiver from Listing Rules 2.14.1, 2.14.2, 7.8 and 7.9 to permit Precinct Properties Group to provide consolidated notices of meetings to Shareholders;
- A waiver from Listing Rules 3.13, 3.14 and 3.15 to permit the Stapled Entities to announce, via NZX, issues, acquisitions, conversions or redemptions of securities on a consolidated basis;
- A ruling that, for the purposes of paragraph (f) of the definition of "Related Party" in the Listing Rules, the word "Issuer" be interpreted as a reference to either Precinct or Precinct Investments. In effect, this ruling will permit Precinct and Precinct Investments or their respective subsidiaries to enter into "Material Transaction" as "Related Parties", within the Precinct Properties Group, without requiring the approval of Shareholders;
- A ruling that, for the purposes of the Listing Rules in respect of Precinct Properties Group, "Material Information" means material information in respect of Precinct Properties Group;
- A waiver from Listing Rules 3.5 to 3.8 to permit Precinct Properties Group to provide the information required in annual reports and half-yearly results announcements on a consolidated basis;
- A ruling that, for the purposes of Listing Rule 4.6.1, an "Employee" be interpreted as any employee of the Precinct Properties Group, so as to enable Stapled Securities to be issued to any employee of Precinct Properties Group;
- A waiver from Listing Rule 8.3 to permit Precinct Properties Group to provide consolidated statements of shareholdings to Shareholders which shows their Precinct Properties Group holdings; and
- A ruling that, for the purposes of the Listing Rules in respect of Precinct Properties Group, the "Average Market Capitalisation" and "Average Market Price", where used in the Listing Rules refers to the combined "Average Market Capitalisation" and "Average Market Price" of Precinct Properties Group respectively.

PART 8: RISKS

This section describes the circumstances that Precinct and Precinct Investments are aware of that exist or are likely to arise that significantly increase the risk to Precinct Properties Group's financial position, financial performance or stated plans.

The selection of risks has been based on an assessment of a combination of the probability of a risk occurring and the impact of the risk if it did occur. This assessment is based on the knowledge of the Directors as at the date of this Explanatory Memorandum. There is no guarantee or assurance that the importance of different risks will not change or that no other risks may emerge over time.

Where practicable, Precinct and Precinct Investments will seek to implement risk mitigation strategies to minimise the exposure to some of the risks outlined below, although there can be no assurance that such arrangements will fully protect Precinct Properties Group from such risks.

You should carefully consider these risks before deciding how to vote in respect of the Stapling. This summary does not cover all of the risks of investing in the Stapled Securities.

The statement of risks in this section does not take account of the personal circumstances, financial position or investment requirements of any particular person. It is important, therefore, that before making any investment decision, you give consideration to the suitability of an investment in the Stapled Securities in light of your individual risk profile for investments, investment objectives and personal circumstances (including financial and taxation issues).

Description of Risk	Precincts assessment of nature and magnitude
Risks relating to implementation of the Stapling and maintenance of the Stapled Security structure	
Stapling is rejected and no suitable alternative structure can be implemented to support Precinct's commercial objectives while preserving the PIE status of Precinct	<p>If Shareholders reject the Stapling, there is a risk that Precinct will not be able to implement an alternative structure to achieve Precinct's commercial objectives while also preserving Precinct's PIE status.</p> <p>If this occurs, Shareholders will be exposed to a higher effective New Zealand tax rate on their investment in Precinct, resulting in lower returns, which may be material to Shareholders.</p>
Precinct's Binding Tax Ruling is invalid, IR does not renew the Ruling in five years' time, IR challenges PIE status of Precinct, or tax law changes	<p>The Stapling has been proposed following discussions with IR and receipt of a Binding Tax Ruling that the Stapling is not an arrangement that is designed to circumvent the loss of PIE treatment for Precinct and its investors.</p> <p>However, there is a risk that:</p> <ul style="list-style-type: none"> the facts communicated to IR about the Stapling are incorrect or incomplete and/or conditions specified in the Ruling are not met; IR could refuse to renew the Ruling once it expires in five years time or may challenge the PIE status of Precinct, in each case following the expiry of the Ruling; or the New Zealand Government could change New Zealand taxation law to prevent Stapling of investments in a PIE to other shares. This would result in a loss of PIE status for Precinct, notwithstanding the Ruling. <p>Precinct will continue to monitor compliance with conditions specified in the Binding Tax Ruling and the eligibility requirements to preserve its PIE status.</p>
The Stapled Security is not easily unwound	<p>Precinct has considered that it is necessary to allow Shareholders to unwind the Stapled Security structure if so desired and has provided for this in the Constitution and the Stapling Deed.</p> <p>However, there is a risk that, notwithstanding the provisions in these documents, the Stapled Security structure is not easily unwound. This would affect the ability of Shareholders to Unstaple the Stapled Securities and return them to their current form.</p>
Change in laws, including tax laws, adversely affects Precinct's PIE status	<p>Precinct Properties Group will be subject to the usual business risk that there may be changes in laws that have an adverse impact on financial performance. Depending on the nature of the changes, the impact may be limited to the value of returns generated by particular property investments.</p> <p>However, changes in New Zealand's tax laws could affect the ability of Precinct to retain its PIE status, even if the Stapling is implemented and the terms and conditions of the Binding Tax Ruling are complied with. No assurance can be given that the current laws and regulations or the adoption of new laws and regulations will not have a material adverse effect on the Stapled Securities.</p>
Structural complexity	<p>The Stapling involves structures, arrangements and agreements that are more complex than conventional legal structures and are uncommon in New Zealand.</p> <p>The governance and administrative arrangements contemplated by the Stapled Security structure are more complex than Precinct currently has and are likely to result in some additional administration costs. This may impact the trading price and value of the Stapled Securities.</p>
Risks of present significance to the business of Precinct Properties Group	
Declining portfolio value	<p>Prime office capitalisation rates have decreased in recent years with potential to depress the overall portfolio value.</p> <p>Precinct will mitigate this risk by creating new supply in the Auckland CBD and city fringe locations. In Wellington the risk is partially mitigated by Precinct's buildings being mainly Prime and A grade buildings.</p>
Insurance capacity and availability	<p>Insurers have capacity constraints in relation to contract works insurance given the number of projects being undertaken in the market, particularly in Auckland and Wellington.</p> <p>However, Precinct's procurement strategy which highlights the quality of its portfolio, the strength of its risk management, and its low historic loss ratio, has built insurer demand for Precinct risk.</p>

Description of Risk	Precincts assessment of nature and magnitude
Interest rate risk	<p>Increasing inflation has lifted expectations for more interest rate rises, which creates cash flow and earnings volatility.</p> <p>Precinct mitigates this risk by regularly reviewing its financial risk management policy to ensure its ongoing appropriateness.</p>
Feasibility and cost of development projects	<p>Increasing interest rates and construction cost escalation is putting pressure on development returns. This risk is largely driven by macroeconomic factors, but Precinct places significant Board and management focus on development projects and ensuring their feasibility.</p>
Construction market capacity	<p>The capacity issues in the construction market, particularly in labour supply, lead to cost increases which impacts returns and may mean that opportunities for development are not able to be taken advantage of.</p> <p>Precinct has limited ability to mitigate this risk given that it is driven by market factors, but in part mitigates this risk by working with preferred contractors and forming long-term relationships.</p>
Health and safety	<p>Precinct has several large developments currently underway and there is a risk that Precinct's operational health and safety policies are not adhered to, which could lead to injury to people.</p> <p>Through the transition to an insourced management model, maintaining a high level of operational health and safety compliance is a key focus for Precinct. Precinct has established an operational health and safety committee which has responsibility for ensuring that appropriate policies are in place and are adhered to.</p>
Climate risks	<p>Precinct is committed to creating a more sustainable environment. This means identifying and assessing the risks and opportunities presented by climate change. There are physical risks, associated with rising mean global temperatures, rising sea levels and increased severity of extreme weather events, and transitional risks and opportunities as the economy transitions to a low carbon economy.</p> <p>Precinct partners with Toitū Envirocare to accurately measure its greenhouse gas emissions and put in place strategies to manage and reduce impacts. Precinct is a signatory to the Net Zero Carbon Buildings Commitment and is committed to its key priorities with a focus on improving operational performance further and ensuring all our assets are resilient to climate change.</p>
Geographic risk	<p>Weighting to Auckland (by value): 71%</p> <p>Weighting to Wellington (by value): 29%</p>
Property destruction and insurance	<p>Precinct's property portfolio is subject to the risk of destruction from natural disasters and other events causing damage to the properties. Destruction of Precinct's property portfolio, or any part of it, may affect Precinct's rental income and earnings.</p> <p>Precinct has comprehensive material damage, business interruption and public and statutory liability insurance covering its portfolio on commercially standard terms for listed property portfolios in New Zealand.</p>
PPML as manager will be managing a number of property portfolios so from time to time will be exposed to conflicts of interest between portfolios and companies that it manages	<p>This is usual for a manager responsible for multiple portfolios. In order to manage this risk, each of the applicable management agreements will include reasonable and appropriate conflict management procedures.</p>
PPML as manager incurs liabilities to property businesses outside of Precinct Properties Group	<p>PPML will be responsible for managing businesses outside of Precinct Properties Group. In the course of carrying out its management mandate, there is a risk that PPML incurs liabilities that it is unable to satisfy, which may result in the termination of the management contract and subsequent reduction in fee income.</p> <p>PPML has professional indemnity insurance in place in respect of its liability to third parties.</p>

GLOSSARY

Board	the board of directors of Precinct or Precinct Investments (as the context requires)
Chair	the chairperson of the Board
Companies Act	the Companies Act 1993
Constitution	the constitution of Precinct
Distribution	the distribution of all Precinct Investments Shares to Shareholders on a one-for-one basis, following which Precinct Investments will no longer be a wholly-owned subsidiary of Precinct
Directors	the directors of Precinct
Directory	the directory at the end of this Explanatory Memorandum
Distributable Profit	distributable profit is a non-GAAP financial measure adopted by Precinct to assist Precinct and investors in assessing Precinct's profit available for distribution. It is defined as net profit/(loss) before income tax adjusted for non-recurring and/or non-cash items and current tax. Distributable Profit per Share is Distributable Profit divided by the number of Precinct Shares on issue
Effective Date	the date on which the Stapling takes effect, which is expected to be 1 July 2023, unless the Board elects otherwise
Explanatory Memorandum	this document
Financial Year	a year ending on 30 June
FMC Act	the Financial Markets Conduct Act 2013
FMC Regulations	the Financial Markets Conduct Regulations 2014
GAAP	Generally Accepted Accounting Practice
Glossary	this glossary of terms
Income Tax Act	the Income Tax Act 2007
IR	Inland Revenue
Listing Rules	the NZX Main Board Listing Rules
Management Agreement	the investment management agreement to be entered into between Precinct and PPML before the Effective Date
non-qualifying	income and investments that do not satisfy the PIE requirements set out in the Income Tax Act
Notice of Meeting	the notice of meeting on page 8 of this document
NZX	NZX Limited
NZX Main Board	the Main Board of the NZX
Portfolio Investment Entity / PIE	a portfolio investment entity as defined in the Income Tax Act
PPML	Precinct Properties Management Limited
Precinct	Precinct Properties New Zealand Limited
Precinct Group	Precinct and its subsidiaries
Precinct Investments	Precinct Properties Investments Limited
Precinct Investments Shares	ordinary shares of Precinct Investments
Precinct Properties Group	Precinct and Precinct Investments together, and any subsidiaries of Precinct or Precinct Investments (after Stapling)
Precinct Shares	ordinary shares of Precinct
Proxy Form	the proxy form that accompanies this Explanatory Memorandum
qualifying	income and investments that satisfy the PIE requirements set out in the Income Tax Act
Ruling	binding tax ruling received from Inland Revenue dated 11 April 2023
Shareholders	those persons who hold ordinary shares in Precinct
Share Registrar	Computershare Investor Services Limited
Special Meeting	the special meeting of Shareholders to be held online at https://meetnow.global/nz on Thursday 11 May 2023 commencing at 3:00pm
Special Resolution	the special resolution set out in the Notice of Meeting, to be approved by at least 75% of the votes of those Shareholders entitled to vote and voting on the resolution
Staple or Stapled	the linking together of the Precinct Shares and Precinct Investments Shares so that one may not be transferred, or otherwise dealt with, without the other and which are quoted on the NZX Main Board as a "Stapled Security" or any other term as NZX permits
Stapled Entity	Precinct or Precinct Investments and, if any other securities are attached, the issuer of any such securities

Stapled Securities or Stapled Shares	one Precinct Share and one Precinct Investments Share that are Stapled together and registered in the name of a holder of a Stapled Security in both the Precinct share register and the Precinct Investments share register. Each reference to a Stapled Security in this Explanatory Memorandum is taken to refer to one Precinct Share and one Precinct Investments Share in their legal capacity as separate securities, but which are traded together following Stapling
Stapling	the process that results in Precinct Shares and Precinct Investments Shares being and remaining Stapled to each other
Stapling Deed	the stapling deed between Precinct and Precinct Investments that sets out the terms of Stapling
Unstaple or Unstapled	means, in relation to a Precinct Share, not being Stapled to a Precinct Investments Share, and vice versa
Unstapling	the process that results in Precinct Shares and Precinct Investments Shares no longer being Stapled
Voting Record Date	5:00pm Tuesday 9 May 2023

DIRECTORY

Precinct Registered Office

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Directors of Precinct

Craig Stobo – Chair, Independent Director

Anne Urlwin – Independent Director

Graeme Wong – Independent Director

Nicola Greer – Independent Director

Mark Tume – Independent Director

Chris Judd – Independent Director

Senior Managers of Precinct

Scott Pritchard, Chief Executive Officer

George Crawford, Deputy Chief Executive Officer

Richard Hilder, Chief Financial Officer

Share Registry

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Auckland 1142

Telephone: +64 9 488 8777

Email: enquiry@computershare.co.nz

Website: www.computershare.co.nz

Please contact our registrar:

- To change investment details such as name, postal address or method of payment.
- For queries on dividends and interest payments.
- To elect to receive electronic communication.

Legal advisors to Precinct

Chapman Tripp

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Auckland