PMG Direct Office Fund

Interim Financial Statements

For the six months ended 30 September 2018

PMG Direct Office Fund
Directory
For the six months ended 30 September 2018

Scheme number	SCH10921
Registration date	1 November 2016
Manager	Property Managers Limited PO Box 2034 Tauranga 3140
Directors of the Manager	Daniel Lem Nigel Lowe Scott McKenzie Denis McMahon Wayne Beilby (appointed 28 September 2017)
Custodian	PMG Direct Office Fund Trustees Limited
Supervisor	Covenant Trustee Services Limited Level 6 191 Queen Street Auckland 1010
Principal place of business	Level 2 46 Spring Street Tauranga 3110
Auditor	Crowe Horwath PO Box 24009 Hamilton 3253
Solicitors	Simpson Grierson Private Bag 92518 Auckland 1141 Cooney Lees Morgan Level 3, 247 Cameron Road Tauranga 3110 Jackson Reeves 31 Hamilton Street Tauranga 3112
Bankers	ASB Business Banking 518 Cameron Road Tauranga
IRD Number	121-253-958

PMG Direct Office Fund
Contents
For the six months ended 30 September 2018

Contents

PMG Direct Office Fund
Statement of Financial Position
As at 30 September 2018

	Note	30-September 2018 $	31-March 2018 $
Assets			
Current assets			
Cash and cash equivalents	6	251,253	109,139
Trade and other receivables	7	200,265	76,311
Other current assets	8	278,199	84,382
Investment property held for resale	9	7,700,000	-
Total current assets		8,429,717	269,832
Non-current assets			
Investment properties	9	48,246,773	47,970,034
Total non-current assets		48,246,773	47,970,034
Total assets		56,676,490	48,239,866
Liabilities			
Current liabilities			
Trade and other payables	10	257,719	313,158
Deposit received in advance on sale of property	9	390,000	-
PIE Tax Payable	10	28,711	30,253
Derivative financial instruments	11	175,351	84,622
Distributions payable	16	175,000	175,000
Other current liabilities	13	26,549	469,343
Total current liabilities		1,053,330	1,072,376
Non-current liabilities			
Borrowings	14	25,312,402	16,307,402
Total non-current liabilities		25,312,402	16,307,402
Total liabilities		26,365,732	17,379,778
Net assets		30,310,758	30,860,088
Equity			
Issued units	15	27,088,989	27,088,989
Retained earnings		3,221,769	3,771,099
Total equity		30,310,758	30,860,088

Director, Property Managers Limited

Director, Property Managers Limited

The above Statement of Financial Position should be read in conjunction with the accompanying notes

PMG Direct Office Fund
Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 September 2018

	Note	30-September 2018	30-September 2017
Revenue	4	2,099,749	2,148,282
Expenses			
Property operating expenses	5	645,440	551,734
Property and Fund management fees		169,473	154,992
Property and Fund Management performance fee		-	198,637
Supervisor fees		10,000	10,130
Administrative	5	65,468	76,988
Operating profit		1,209,368	1,155,801
Net Finance expenses	5	467,173	425,961
Dividends Received		3,832	3,625
Net fair value gain on investment properties	9	-	1,359,266
Net loss on disposal of investment property	9	(154,628)	-
Fair value movement on derivative financial instruments		(90,729)	(12,768)
Net profit		**500,670**	**2,079,963**
Other Comprehensive Income		-	-
Total comprehensive income		**500,670**	**2,079,963**

The above Statement of Profit or Loss and other comprehensive income should be read in conjunction with the accompanying notes

PMG Direct Office Fund
Statement of Changes in Equity
For the six months ended 30 September 2018

2018	Issued Units $	Retained earnings $	Total equity $
Balance at 1 April 2018	27,088,989	3,771,099	30,860,088
Net profit for the year and total comprehensive income	-	500,670	500,670
Transactions with investors in their capacity as investors:			
Distributions to investors (note 16)	-	(1,050,000)	(1,050,000)
Balance at 30 September 2018	27,088,989	3,221,769	30,310,758

2018	Issued Units $	Retained earnings $	Total equity $
Balance at 30 September 2017	27,088,989	2,905,217	29,994,206
Net profit for the year and total comprehensive income	-	1,915,882	1,915,882
Transactions with investors in their capacity as investors:			
Distributions to investors (note 16)	-	(1,050,000)	(1,050,000)
Balance at 31 March 2018	27,088,989	3,771,099	30,860,088

2017	Issued Units $	Retained earnings $	Total equity $
Balance at 1 April 2017	27,088,989	1,875,254	28,964,243
Net profit for the year and total comprehensive income	-	2,079,963	2,079,963
Transactions with investors in their capacity as investors:			
Distributions to investors (note 16)	-	(1,050,000)	(1,050,000)
Balance at 30 September 2017	27,088,989	2,905,217	29,994,206

CROWE HORWATH NEW ZEALAND

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

PMG Direct Office Fund
Statement of Cash Flows
For the six months ended 30 September 2018

	Note	Six months to 30 September 2018 $	Six months to 30 September 2017 $
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		2,042,258	2,163,179
Interest income		3,993	-
Dividend income		3,832	3,625
GST Receivable		54,016	122,060
Cash was applied to:			
Payments to suppliers		(998,768)	(954,355)
Interest and other finance costs paid		(497,715)	(463,147)
Net cash inflow/(outflow) from operating activities		607,616	871,362
Cash flows from investing activities			
Cash was provided from:			
Sale of investment properties		4,869,087	-
Cash was applied to:			
Payment for purchase of investment properties		(12,271,500)	-
Payments for capital expenditure on investment properties		(1,018,089)	(370,415)
Net cash inflow/(outflow) from investing activities		(8,420,502)	(370,415)
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings		9,005,000	613,000
Cash was applied to:			
Term Loan repaid		-	-
Distributions to investors	16	(1,050,000)	(1,038,333)
Net cash inflow/(outflow) from financing activities		7,955,000	(425,333)
Net increase in cash and cash equivalents		142,114	75,614
Cash and cash equivalents at the start of the financial period		109,139	145,260
Cash and cash equivalents at the end of the financial period	6	251,253	220,874

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

Reporting entity

PMG Direct Office Fund ('the Fund') is a Managed Investment Scheme domiciled in New Zealand. The Fund is managed by Property Managers Limited ('the Manager'), and the supervisor of the Fund is Covenant Trustee Services Limited ('the Supervisor'). The Manager of the Fund is licensed under the Financial Markets Conduct Act 2013 ('FMCA') as a manager of Managed Investment Schemes. The Supervisor holds any properties in the Fund in trust on behalf of the Investors through a custodian company wholly-owned by the Supervisor, called PMG Direct Office Fund Trustees Limited ('the Custodian').

The Fund was established on 14 December 2016, pursuant to a Master Trust Deed and an Establishment Deed dated 1 November 2016 between the Supervisor and the Manager as varied by deed from time to time in compliance with the FMCA ('the Trust Deeds'). Copies of the Trust Deeds can be found at www.business.govt.nz/disclose.

The Fund's primary purpose is to hold commercial property in a geographically diversified portfolio for rental income and potential capital appreciation.

Basis of preparation

The interim financial statements have been prepared for the Fund in accordance with NZ IAS 34 and complies with IAS 34 Interim Financial Reporting. The statements are condensed and do not reflect all the disclosures that are required in year end financial statements.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards, as appropriate for Tier 1 for-profit oriented entities. The financial statements also comply with the requirements of International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors of the Manager on 20 February 2019.

Basis of measurement

The financial statements have been prepared on the historical cost basis, and the going concern concept and the accrual basis of accounting have been adopted. Where required under NZ IFRS fair value measurement has been applied - see note 9.

These financial statements are presented in New Zealand Dollars ('$'), which is also the Fund's functional currency. All information presented in New Zealand Dollars has been rounded to the nearest dollar.

The same accounting policies and methods of computation are followed in the interim financial statements as were used in the annual financial statements.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

New, revised or amending Accounting Standards and Interpretations adopted

The Fund has adopted all new, revised or amended Accounting Standards and Interpretations issued by the External Reporting Board ('XRB') that are mandatory for the current reporting period. This includes IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. Other than separating operating expenses recoveries between those covered by IAS 17 – Lease and those covered by IFRS 15 – Revenue from Contracts with Customers (Note 4) as well as additional disclosure requirements, there were no further changes in these financial statements as a result of adopting the new Accounting Standards.

Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 1. Significant accounting policies (continued)

The following new Accounting Standards and Interpretations are likely to be most relevant to the Fund in future periods, but have not yet been adopted:

- **NZ IFRS 16 – *Leases*** – effective for periods beginning on or after 1 January 2019. The standard removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. Lessor accounting remains like current practice – i.e. Lessors continue to classify leases as finance and operating leases. The Fund primarily operates as a Lessor, therefore this standard is not expected to have a significant impact on the Fund's financial statements.

Other issued standards and amendments that are not yet effective are not expected to have an impact on the financial statements.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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

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

Rent
Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as assets and amortised as a reduction in rental revenue over the remaining lease term. Contingent rentals are recognised as income in the period when earned.

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

The rent revenue and some of the outgoings recovered from the tenants constitute being part of a lease and are dealt with under the scope of NZ IAS 17 Leases, and so are outside the scope of IFRS 15 Revenue from Contracts with Customers. The Outgoings recovered that are dealt with under the scope of NZ IAS 17 Leases are because they are closely related to the lease of the building and the tenant doesn't receive an additional separate service to the space when it reimburses those items to the Fund. These are expenses such as rates, insurance, lift expenses, valuation, fire expenses, plumbing and electricity maintenance and air conditioning services.

The outgoings recovered that the Fund has identified as being under the scope of NZIFRS 15 are electricity, rubbish collection, cleaning, gardening services, management expenses and security expenses. This is because they are an additional service over and above the lease of rental space and so should be looked at as separate to the lease income. (See Note 4)

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

CROWE HORWATH NEW ZEALAND

Note 1. Significant accounting policies (continued)

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

Income tax
The Fund elected to be a Portfolio Investment Entity ('PIE') from the commencement date of the Fund and as such is not liable for income tax. However, the Fund is required to allocate income to investors under one of the options available under the PIE rules, daily or quarterly. The Fund distributes 100% of adjusted net income (being surplus less adjustments for fair value recognition) to investors and as a result the Fund has no undistributed surplus that would be liable for tax.

The Fund deducts tax at the investors prescribed investor rate of either 0%, 10.5%, 17.5% or 28%. The tax rate is capped at 28%. The tax deducted is a debt due to the crown and is paid directly to the Inland Revenue Department on the investors' behalf. If any income is not allocated to investors it is liable for tax at 28%.

Financial Assets

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held on call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position when applicable. Cash and cash equivalents are classified as loans and receivables.

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

The Fund has elected to apply the simplified approach thereby recognising lifetime expected credit losses on trade and lease receivables. A provision matrix is used to determine the lifetime expected credit loss. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.

Investment properties
Investment properties principally comprise freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Fund. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly in profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected. Any gains or losses on the disposal of an Investment Property are recognised in the profit or loss in the year of disposal and is calculated as the difference between the proceeds of sale and the carrying value of the property.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

In all cases the Fund is not a Lessee, but a Lessor of investment property. The Fund only enters leases where it retains substantially all risk and ownership of the leased asset. All such leases are therefore classified as operating leases. All leased assets are included within Investment Properties.

Note 1. Significant accounting policies (continued)

Impairment of non-financial assets
Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Financial liabilities

Trade and other payables
These amounts represent liabilities for goods and services provided to the Fund prior to the end of the financial year and which are unpaid. They are initially recognised at fair value and subsequently measured at amortised cost. Due to their short-term nature, they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition, and as a result are recorded at the invoice amount with no accrued interest. Trade and other payable are classified as financial liabilities measured at amortised cost.

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

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

Due to their nature, derivative financial instruments are classified as financial assets or liabilities.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions
Provisions are recognised when the Fund has a present (legal or constructive) obligation because of a past event, it is probable the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 1. Significant accounting policies (continued)

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in the fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued units
Units issued are classified as equity.

Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds from issue of those units.

Distributions
Distributions are recognised when declared during the financial year and no longer at the discretion of the Fund.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Inland Revenue Department. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Insurance costs
Insurance premiums form part of the property operating expenses and are charged to tenants where the lease agreement allows.

Impairment of non-financial assets
The Fund assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the Fund and to the asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate several key estimates and assumptions.

Management Fee Expenses
The Manager is entitled to a management fee equal to:

0.5% of the carrying value of the investment property assets in the Fund, based on the carrying value as at the beginning of the applicable financial year (i.e. 1 April) and a property management fee equal to 2.00% of the gross annual rental of the investment property assets in the Fund. The management fees are paid to the Manager monthly in respect of the property and funds management services provided by the Manager during the prior month.

Performance Fee Expenses
The Manager is entitled to a performance fee equivalent to 20% of the excess performance above the Fund's performance benchmark (**Performance Fee**). The current performance benchmark is the average 10-year government bond yield plus 6%. Performance is measured by the annual capital and income returns to Investors at the end of each financial year against the performance benchmark. If this performance measurement is a negative return, no performance fee is payable in respect of that year.

CROWE HORWATH NEW ZEALAND

Note 1. Significant accounting policies (continued)

Property Project Fee Expenses

The Manager is entitled to on acquisition of a new property by the Fund, a fee equal to 1% of the acquisition price of the property with a minimum fee of $150,000 per property (Acquisition Fee) (such fees will no longer be payable if the Fund's value exceeds $250 million); on disposal of a property held by the Fund, a fee equal to 1% of the sales price for the property is also payable to the manager if the fund undertakes an investigation into the acquisition of a new property or disposal of an existing property in the Fund, a fee (Investigation Fee), on a time and attendance basis, as agreed between the Manager and Supervisor is payable. If the Manager is paid an Investigation Fee and the relevant transaction subsequently proceeds, an amount equal to the Investigation Fee will be deducted from the Acquisition Fee.

If construction or refurbishment is undertaken on a property held by the Fund, a fee equal to 5% of the development costs is payable (provided that those development costs exceed $50,000). The Manager is entitled to recover any costs incurred by the Manager from any consultants or advisers engaged in relation to property acquisition, disposal, investigation, construction or refurbishment subject to those costs being approved by the Supervisor.

Supervisor's Fee Expenses

The Supervisor is entitled to an annual base fee, as agreed between the Manager and Supervisor. This must not exceed 0.06% per annum of the Net Asset Value (NAV) of the Fund (subject to a minimum annual fee of $20,000). Special fees are payable, in amounts agreed with the Manager, for any services provided by the Supervisor of an unusual or onerous nature outside of the Supervisor's regular services.

Recovery of Expenses

The Manager and Supervisor are entitled to be reimbursed by the Fund for certain fees and expenses. These include costs incurred in connection with Offers, the acquisition of Properties, the investigation and negotiation of additional properties for the Fund, the fees and expenses of the fund's auditor, any fees or expenses incurred for any engagement by the Supervisor or as required by law, any taxes, duties, imposts or levies charged to the Manager or Supervisor in connection with the Fund, the costs of convening and holding Investor meetings, professional services fees (legal, accounting, etc) incurred by the Manager or Supervisor in the discharge of their duties under the Master Trust Deed, communication and postage costs, expenses relating to the Unit registrar, and any other expenses properly and reasonably incurred by the Manager or Supervisor in connection with carrying out their duties under the Master Trust Deed.

Sub-contracted investment and administration services

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

Other fees

If the Manager, with the approval of the Supervisor, undertakes any works related to any of the properties in the Fund that do not fit within any of the obligations contemplated under schedule of the Establishment Deed related to fees, the Manager is entitled to be paid out of the Fund such fees for those works calculated on a "time in attendance" market rate, as agreed between the Manager and Supervisor.

Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

CROWE HORWATH NEW ZEALAND

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, that management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value measurement hierarchy
The Fund is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

Valuation of the Investment Properties are based on key estimates and judgements. These are made in the choice of Inputs used in the valuation of the Funds Investment Assets by the external Independent Valuer. Note 9 presents an analysis of the Key Inputs used in these valuations.

The fair value of assets and liabilities classified as level 3 is determined using valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs. Whilst these may be provided by an independent third party, they are still inherently subject to significant estimation, judgement and use of assumptions.

IFRS 15 Revenue from Contracts with Customers outlines the Principal versus Agent considerations, which is relevant as the Fund subcontracts the bulk of the services that the tenants receive as part of leasing the properties (refer Note 1 Revenue Recognition accounting policy). Management has determined that the Fund is the Principal for each of the services above as it controls the appointment of service providers and can change them to suit what they believe is in the best interests of the tenants and the property. The Fund is also independently liable for payment of sub-contractor costs and has a liability to the customer for the quality of any services delivered by sub-contractors to the customer. This is a critical assumption because as the Principal the Fund recognises the gross amount of revenue from the cost recoveries and not the net amount of the revenue, after deduction of the costs, which would be the case if it was an Agent.

Note 3. Operating segments

Identification of reportable operating segments
The Fund consists of only one operating segment: commercial office property rental. This is based on the internal reports that are reviewed and used by the Board of Directors of the Manager (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments. The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a monthly basis.

Types of products and services
The principal products and services of the only operating segment are the provision of commercial office properties for rent across the Upper North Island of New Zealand.

Major customers
During the six months ended 30 September 2018 and the year ended 31 March 2018 no customers individually generated greater than 10% of revenue for the Fund.

Key metrics
As there is only one operating segment, all figures throughout the financial statements are applicable to the only operating segment.

Geographical location of non-current assets
All non-current assets are located within the Upper North Island of New Zealand.

CROWE HORWATH NEW ZEALAND

Note 4. Revenue

Revenue is accounted for in accordance with NZ IFRS 15 Revenue from Contracts with Customers and NZ IAS 17 Leases. These standards were adopted by the Fund in the current year and the Fund has restated the comparatives for the six months ended 30 September 2017. Revenue is recognised when or as control of the promised services is transferred to customers, in an amount that reflects the consideration the Fund expect to be entitled to in exchange for those services.

	6 months to 30 Sep 2018 $	6 months to 30 Sep 2017 $
Sales revenue		
Rent from investment properties	1,713,260	1,764,669
Operating expenses recoveries – NZ IAS 17 Leases	270,774	263,097
Operating expenses recoveries – NZ IFRS 15 Revenue from contracts for customers	115,715	120,516
	2,099,749	2,148,282

The following is a description of principal activities from which the Fund generates revenue.

Property Ownership Services

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

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

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

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

Accounts Receivable and Loss Allowance for Doubtful Accounts

The Fund records accounts receivable for unconditional rights to consideration arising from performance under contracts with customers. The carrying value of such receivables, net of the loss allowance represents their estimated net realisable value. A provision matrix is used to determine the lifetime expected credit loss. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually. As a practical expedient, the Fund does not adjust the promised amount of consideration for the effects of a significant financing component when the Fund expects, at contract inception, that the period between transfer of a promised service to a customer and when the customer pays for that service will be one year or less. The Fund does not typically include extended payment terms in contracts with customers.

Note 4. Revenue (continued)

Remaining Performance Obligations

Remaining performance obligations relate to future operating expense recoveries to be received over the remaining contracted lease periods. These recoveries are expected to be materially consistent per owned property.

Note 5. Specific expenses

Net profit before tax includes the following specific expenses:	6 months to 30 Sep 2018 $	6 months to 30 Sep 2017 $
Property operating expenses		
Expenses on investment property that generated rental income	645,440	551,734
Administrative		
Auditors & Accountants remuneration	7,578	7,152
Consultancy & Legal fees	32,191	30,920
Valuation fees	9,810	25,360
Other Administration costs	15,889	13,556
	65,468	76,988
Net finance expenses		
Interest and finance charges paid/payable	471,166	425,961
Interest revenue	(3,993)	-
	467,173	425,961

Note 6. Cash and cash equivalents

	30 Sep 2018 $	31 March 2018 $
Cash at bank – ASB Bank Limited	251,253	109,139
	251,253	109,139

All cash and cash equivalents are held with ASB Bank, a financial institution counterparty, who are rated AA-, based on rating agency Standard and Poors.

Note 7. Trade and other receivables

	30 Sep 2018 $	31 March 2018 $
Trade receivables	174,838	48,194
	174,838	48,194
GST receivable	-	18,193
Other receivables	25,427	9,924
	200,265	76,311

Impairment of receivables
The Fund has recognised no amount in profit or loss in respect of impairment of receivables for the six months ended 30 September 2018 or the year ended 31 March 2018.

Past due but not impaired
There are no customers with balances past due but without provision for impairment of receivables as at 30 September 2018 or at 31 March 2018.

CROWE HORWATH NEW ZEALAND

Note 7. Trade and other receivables (continued)

Management has used a provision matrix to determine the expected credit loss. No adjustment was made for the expected credit loss in the 30 September 2018 or 31 March 2018 balances, due to the loss amount being insignificant. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.

Note 8. Other current assets

	30 Sep 2018 $	31 March 2018 $
Lease Inducements	142,835	72,862
Prepayments	135,364	11,520
	278,199	84,382

Note 9. Investment properties

	30 Sep 2018 $	31 March 2018 $
Investment properties consist of:		
Current Investment property held for resale	7,700,000	-
Non-current Investment property	48,246,773	47,970,034
	55,946,773	47,970,034

Reconciliation
Reconciliation of the fair values at the beginning and end of the current financial year are set out below:

	30 Sep 2018 $	31 March 2018 $
Opening fair value	47,878,461	47,825,000
Acquisition of investment property at cost	12,280,413	-
Capital additions to investment property at cost	864,667	1,382,596
Investment Property sold during the year	(5,157,746)	(4,040,416)
Revaluation increments	-	2,711,281
Closing fair value	55,865,795	47,878,461
Deferred Commission	80,978	91,573
Total Investment Property	55,946,773	47,970,034

Acquisition of investment properties
In the six months to 30 September 2018 the Fund purchased one investment property, 8 Rockridge Road, Penrose, Auckland. The purchase cost was equivalent to the fair value at that time.

Sale of investment properties
In the six month period to 30 September 2018 the Fund sold two investment properties, 117 Willow Street, Tauranga and 1214 Ranolf Street, Rotorua and has received the deposit of $390,000 and paid the commission on sale on 22 Amersham Way, Auckland which is due to settle on 28 March 2019. In the year ended 31 March 2018 the Fund sold one investment property, 52 Lovegrove Crescent, Auckland.

Valuations of investment properties
The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment. The investment properties are revalued annually based on independent assessments by a member of the Property Institute of New Zealand.

CROWE HORWATH NEW ZEALAND

Note 9. Investment Properties (continued)

Valuation to market value is performed based on a variety of complementary approaches, including the income approach (direct capitalisation), the cost approach, and discounted cash flow approach, establishing value based on potential highest and best use of the properties. This considers recent sales evidence, market rental analysis and contract rental analysis, amongst other matters. A summary of the fair value of each investment property is provided further in this note.

The six month period to 30 September 2018 does not include any fair valuation movement as the properties are valued at 31 March each year. The comparative movement for the six months ended 30 September 2017 is half of the annual movement to 31 March 2018.

Summary of investment properties held at 30 September 2018:

Property	Fair value at 31 March 2018	Capital cost/sale cost during period	Purchase Price/ (Sale Value)	Fair valuation movement	Fair value at 30 September 2018
5 Short Street, Newmarket, Auckland	17,800,000	261,404	-	-	18,061,404
2 Robert Street, Ellerslie, Auckland	9,500,000	57,752	-	-	9,557,752
22 Amersham Way, Manukau, Auckland	7,700,000	-	-	-	7,700,000
143 Durham Street, Tauranga	5,650,000	82,903	-	-	5,732,903
127 Durham Street, Tauranga	2,500,000	13,939	-	-	2,513,939
117 Willow Street, Tauranga	2,928,461	429,285	(3,223,641)	(134,105)	-
1214 Ranolf Street, Rotorua	1,800,000	-	(1,779,477)	(20,523)	-
8 Rockridge Road, Auckland	-	19,384	12,280,413	-	12,299,797
Total Investment Property	**47,878,461**	**864,667**	**7,277,295**	**(154,628)**	**55,865,795**

Summary of investment properties held at 31 March 2018:

Property	Fair value at 31 March 2017	Capital cost during period	Sale Value	Fair valuation movement	Fair value at 31 March 2018
5 Short Street, Newmarket, Auckland	15,150,000	407,735	-	2,242,265	17,800,000
2 Robert Street, Ellerslie, Auckland	8,900,000	207,006	-	392,994	9,500,000
22 Amersham Way, Manukau, Auckland	7,500,000	121,870	-	78,130	7,700,000
143 Durham Street, Tauranga	5,175,000	17,923	-	457,077	5,650,000
127 Durham Street, Tauranga	2,650,000	50,655	-	(200,655)	2,500,000
117 Willow Street, Tauranga	2,750,000	499,612	-	(321,151)	2,928,461
1214 Ranolf Street, Rotorua	1,725,000	12,379	-	62,621	1,800,000
52 Lovegrove Crescent, Otara, Auckland	3,975,000	65,416	(3,875,000)	(165,416)	-
Total Investment Property	**47,825,000**	**1,382,596**	**(3,875,000)**	**2,545,865**	**47,878,461**

Key valuation considerations:

Property	Valuer	Net market income $	Yield on net market income	Residual lease term
5 Short Street, Newmarket, Auckland	Aim Valuation Limited	1,292,134	7.3%	2.90 years
2 Robert Street, Ellerslie, Auckland	Aim Valuation Limited	815,727	8.1%	2.36 years
22 Amersham Way, Manukau, Auckland	Aim Valuation Limited	671,225	8.2%	2.84 years
143 Durham Street, Tauranga	Preston Rowe Paterson	418,802	7.0%	2.40 years
127 Durham Street, Tauranga	Preston Rowe Paterson	178,651	7.0%	0.5 years
117 Willow Street, Tauranga	Preston Rowe Paterson	273,936	8.5%	1.91 years
1214 Ranolf Street, Rotorua	Telfer Young (Rotorua) Ltd	133,400	7.3%	1.0 years

CROWE HORWATH NEW ZEALAND

Note 9. Investment Properties (continued)

Fair value measurement

Fair value hierarchy
The following tables detail the Fund's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Investment properties are the only assets carried at fair value, and they are included within level 3 of the fair value hierarchy. They have a total carrying value of $55,946,773 at 30 September 2018 (31 March 2018: $47,970,034).

Derivative financial instruments are the only liabilities carried at fair value, and they are included within level 2 of the fair value hierarchy. They have a carrying value of $175,351 at 30 September 2018 (31 March 2018: $84,622).

There were no transfers between levels during the financial period.

The carrying amounts of trade and other receivables, trade and other payables and distributions payable are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.
Valuation techniques for fair value measurements categorised within level 2 and level 3

Investment properties have been valued based on similar assets, location and market conditions. The valuation techniques per note 9 rely on significant inputs such as market rental yield, rental growth rates, vacancy rates, market capitalisation rates and discount rates.

Generally, a change in the market capitalisation rate is accompanied by a directionally similar change in the discount rate. The adopted market capitalisation rate forms part of the direct capitalisation approach and the discount rate forms part of the discounted cash flow approach. Both valuation methodologies are considered when determining fair value of investment property.

When performing the direct capitalisation approach, the market rental has a strong interrelationship with the market capitalisation rate given the methodology involves assessing the total market rental income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the market rent and an increase in the market capitalisation rate could potentially offset the impact to fair value. The same can be said for a decrease in the market rent and a decrease in the adopted market capitalisation rate. A directionally opposite change in the market rent and the adopted market capitalisation rate could potentially magnify the impact on fair value.

When performing a discounted cash flow valuation, the discount rate and terminal yield (a factor of market yield and growth rate) have a strong interrelationship in deriving fair value given the discount rate will determine the rate at which the terminal value is discounted to present value. In theory, an increase in the adopted discount rate and a decrease in the terminal yield could potentially offset the impact to fair value. The same can be said for a decrease in the discount rate and an increase in the terminal yield. A directionally similar change in the discount rate and the terminal yield could potentially magnify the impact on fair value.

Note 9. Investment Properties (continued)

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

	30 Sep 2018 Investment Properties $	31 March 2018 Investment Properties $
Opening Balance	47,878,461	47,825,000
Acquisition of Investment Property	12,280,413	-
Capital Additions	864,667	1,382,596
Sale of Investment Property	(5,157,746)	(4,040,416)
Gains on investment property recognised in profit or loss	-	2,711,281
Closing Balance	55,865,795	47,878,461
Deferred Commission	80,978	91,573
	55,946,773	47,970,034

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

Description	Unobservable inputs	31 March 2018 Range (weighted average)
Investment properties	Rental yield	7% to 8.5% (7.8%)
	Rental growth	1.25% to 1.75% (1.50%)
	Market capitalisation rate	6.9% to 7.9% (7.44%)
	Discount rate	7.75% to 9.5% (8.53%)

Sensitivity Analysis
At 30 September 2018 it is estimated a general decrease in the value of the investment properties of 1% would have decreased the Fund's profit before income tax by $558,658 (31 March 2018: $478,785).

Note 10. Trade and other payables

	30 Sep 2018 $	31 March 2018 $
Trade payables	221,896	313,158
GST Payable	35,823	-
PIE Tax payable	28,711	30,253
	286,430	343,411

Refer to note 11 for further information on financial instruments.

Note 11. Financial instruments

Financial risk management objectives
The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Fund. The Fund uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Fund does not apply Hedge accounting principles in relation to their Interest Rate swap.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk and a combination of occupancy and yield analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior executives ('Executives') under policies approved by the Supervisor ('the Board'). These policies include identification and analysis of the risk exposure of the Fund and appropriate procedures, controls and risk limits. Executives identify, evaluate and hedge financial risks within the Fund, and they report to the Board monthly.

Market risk

Price risk
The Fund's main price risk arises from its investment property. Buildings that are not fully occupied, or are not appropriately positioned in the market, expose the Fund to price risk and fair value risk. The Fund's policy is to maintain a strategic refurbishment and leasing plan that is conservative and achievable, through utilisation of in-house specialist property management experience to enable value-add repositioning opportunities capable of increasing rental income across the Fund's property portfolio. All the Fund's properties are assessed at least annually against several key metrics to determine whether property should be sold or remain in the Fund. The sensitivities of key price inputs are disclosed in Note 9.

Interest rate risk
The Fund's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Fund to interest rate risk. The policy is to hedge this risk by maintaining interest rate swap agreements with a combination of maturities.

The Fund's bank loans outstanding, totalling $25,312,402, are interest-only payment loans. Monthly cash outlays of approximately $98,000 per month are required to service the interest payments. An official increase/decrease in interest rates of 100 basis points would have an adverse/favourable effect on profit before tax of $253,124 per annum.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Fund does not hold any collateral.

Credit risk in respect of derivative financial instruments is accounted for in the fair valuation of those instruments. The impact of credit risk on the valuation of the derivative financial instruments held by the Fund is however considered to be immaterial and thus changes in fair value attributable to changes in credit risk of counter parties (or the Fund) are not separately disclosed.

Liquidity risk
Vigilant liquidity risk management requires the Fund to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Fund manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

CROWE HORWATH NEW ZEALAND

Note 11. Financial instruments (continued)

Liquidity risk continued
Financing arrangements
Unused borrowing facilities at the reporting date:

	30 Sep 2018 $	31 March 2018 $
Bank loans	468,598	1,673,598
	468,598	1,673,598

The bank loan facilities may be drawn at any time and may be terminated by the bank without notice. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time and have an average maturity on a rolling 3 year facility.

Remaining contractual maturities
The following tables detail the Fund's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

30 September 2018	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total $
Non-derivatives						
Non-interest bearing						
Trade payables	-%	257,719	-	-	-	257,719
Other payables	-%	416,549	-	-	-	416,549
Distributions payable	-%	175,000	-	-	-	175,000
PIE Tax Payable	-%	28,711				28,711
Interest-bearing - floating rate						
Bank loans	4.19%	1,045,982	1,045,982	25,530,314	-	27,622,278
Total non-derivatives		1,923,961	1,045,982	25,530,314	-	28,500,257
Derivatives						
Interest Rate Swaps	2.49-2.72%	146,225	92,375	67,955	-	306,555
Total derivatives		146,225	92,375	67,955	-	306,555

31 March 2018	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total $
Non-derivatives						
Non-interest bearing						
Trade payables	-%	313,158	-	-	-	313,158
Other payables	-%	469,343	-	-	-	469,343
Distributions payable	-%	175,000	-	-	-	175,000
PIE Tax Payable	-%	30,253				30,253
Interest-bearing - floating rate						
Bank loans	4.19%	683,280	683,280	16,791,392	-	18,157,952
Total non-derivatives		1,671,034	683,280	16,791,392	-	19,145,706
Derivatives						
Interest Rate Swaps	2.49-2.72%	85,300	50,250	-	-	135,550
Total derivatives		85,300	50,250	-	-	135,550

Note 11. Financial instruments (continued)

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

The 30 day BKBM spot rate as at 30 September and 1 March has been used to forecast the floating rate cashflows on the loans and swaps.

In managing interest rate risks the Fund aims to reduce the impact of short term fluctuations on the Funds earnings. Over the longer term permanent changes in the interest rates will have an impact on profit.

It is estimated that a general increase of 1% in interest rates would have decreased the Funds profit before income tax of $73,124 at 30 September 2018. (31 March 2018: $43,074). This was calculated by reference to an increase to the floating rate on the loans that do not have derivatives in place.

Fair values and fair value hierarchy

The carrying amounts shown in the statement of financial position are a reasonable approximation of the fair value of the financial instruments. The methods used in determining the fair value of financial instruments are disclosed in note 3(a)(v). The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Classification and fair values	Total Carrying Amount $	Level 1 $	Level 2 $	Level 3 $
30 September 2018				
Financial Liabilities Designated at fair value				
Derivative Financial Instruments	175,351	0	175,351	0
Total Financial Liabilities	**175,351**	**0**	**175,351**	**0**

	Total Carrying Amount $	Level 1 $	Level 2 $	Level 3 $
31 March 2018				
Financial Liabilities Designated at fair value				
Derivative Financial Instruments	84,622	0	84,622	0
Total Financial Liabilities	84,622	0	84,622	0

Note 12. Derivative Financial Instruments

The Fund holds derivative financial instruments at fair value through the profit and loss in the form of interest rate swaps to reduce interest rate risk. At 30 September 2018, interest rate swaps had a notional value of $18,000,000. Fair value has been determined by ASB Bank Limited.

	30 Sep 2018 $	31 March 2018 $
Interest rate swaps – ASB Bank Limited	175,351	84,622

The Fund entered into the following interest rate swap agreements with the ASB Bank. The Fund is a fixed rate payer under the terms of these agreements. Specific details are as follows:

At 30 September 2018

Details	Maturity date	Notional value	Fixed interest rate	Fair value $
Interest rate swap 1	16 December 2019	8,000,000	2.7175%	(69,385)
Interest rate swap 2	16 August 2021	3,000,000	2.5100%	(29,169)
Interest rate swap 3	15 August 2022	3,000,000	2.6600%	(42,124)
Interest rate swap 4	14 December 2020	4,000,000	2.4900%	(34,673)
		18,000,000		(175,351)

At 31 March 2018

Details	Maturity date	Notional value	Fixed interest rate	Fair value $
Interest rate swap 1	14 December 2018	4,000,000	2.4900%	(13,078)
Interest rate swap 2	16 December 2019	8,000,000	2.7175%	(71,544)
		12,000,000		(84,622)

Payments are made monthly in accordance with the terms of the swap agreements. There is no difference between the fair value and the amounts the Fund is contractually required to pay at maturity.

Note 13. Other current liabilities

	30 Sep 2018 $	31 March 2018 $
Accrued expenses	26,549	412,842
Income received in advance	-	56,501
	26,549	469,343

Note 14. Borrowings

	30 Sep 2018 $	31 March 2018 $
Bank loans	25,312,402	16,307,402
	25,312,402	16,307,402

Assets pledged as security
The bank loans are secured by first ranking mortgages over the Fund's investment properties.

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	30 Sep 2018 $	31 March 2018 $
Total facilities		
Bank overdraft	-	-
Bank loans	25,781,000	17,981,000
	25,781,000	17,981,000
Used at the reporting date		
Bank overdraft	-	-
Bank loans	25,312,402	16,307,402
	25,312,402	16,307,402

Note 15. Issued units

	30 Sep 2018 Units	31 March 2018 Units	30 Sep 2018 $	31 March 2018 $
Units - fully paid	28,000,000	28,000,000	28,000,000	28,000,000

Movements in issued units

Details	Date	No of units	Issue price	$
Issue of units	7 December 2016	28,000,000	$1.00	28,000,000
Unit issue transaction costs, net of tax	7 December 2016	-	$0.00	(911,011)
Balance	30 September 2018	28,000,000		27,088,989

Units
Units entitle the Investor to participate in distributions and the proceeds on the winding up of the Fund in proportion to the number of and amounts paid on the units held. The fully paid units have no par value and the Fund's limit on the number of authorised units on issue is currently being met.

On a show of hands every Investor present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Unit buy-back
There is no current on-market unit buy-back.

Capital risk management
The Fund's objectives when managing capital (Total Equity) is to safeguard its ability to continue as a going concern, so that it can provide returns for investors and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Note 15. Issued units (continued)

To maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to Investors, return capital to Investors, issue new units or sell assets to reduce debt.

The Fund would look to raise capital when an opportunity to invest in further investment property was value adding relative to the Fund's financial position and performance at the time of raising capital.

The Fund is subject to certain covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Note 16. Distributions

Distributions
In the six month period ending 30 September 2018 a distribution was paid on the 25th of each month for 0.625 cents per unit totalling $175,000 per month. On 30 September 2018 the Directors of the Manager declared a final distribution for the period ended 30 September 2018 of 0.625 cents per unit which was paid on 25 October 2018, a total distribution of $175,000 based on the number of units on issue as at 30 September 2018. As the Fund is a PIE, income tax will be deducted from this distribution per unit by the Fund at each Investors' respective Prescribed Investor Rate.

Distributions paid in this current financial year were as follows:

	30 Sep 2018 $
Distribution paid for period ended 30 April 2018 0.625 cents per unit	175,000
Distribution paid for period ended 31 May 2018 0.625 cents per unit	175,000
Distribution paid for period ended 30 June 2018 0.625 cents per unit	175,000
Distribution paid for period ended 31 July 2018 0.625 cents per unit	175,000
Distribution paid for period ended 31 August 2018 0.625 cents per unit	175,000
Distribution paid for period ended 30 September 2018 0.625 cents per unit	175,000
	1,050,000

Distributions paid in the previous financial year were as follows:

	31 March 2018 $
Distribution paid for period ended 30 April 2017 0.625 cents per unit	175,000
Distribution paid for period ended 31 May 2017 0.625 cents per unit	175,000
Distribution paid for period ended 30 June 2017 0.625 cents per unit	175,000
Distribution paid for period ended 31 July 2017 0.625 cents per unit	175,000
Distribution paid for period ended 31 August 2017 0.625 cents per unit	175,000
Distribution paid for period ended 30 September 2017 0.625 cents per unit	175,000
Distribution paid for period ended 31 October 2017 0.625 cents per unit	175,000
Distribution paid for period ended 30 November 2017 0.625 cents per unit	175,000
Distribution paid for period ended 31 December 2017 0.625 cents per unit	175,000
Distribution paid for period ended 31 January 2018 0.625 cents per unit	175,000
Distribution paid for period ended 28 February 2018 0.625 cents per unit	175,000
Distribution paid for period ended 31 March 2018 0.625 cents per unit	175,000
	2,100,000

PIE tax deducted at source

Note 17. Distributions (continued)

During the financial period, the Fund deducted $66,105 from distributions made to investors. $28,711 remains payable at 30 September 2018 and is shown in the statement of financial position. (During the year ended 31 March 2018, the Fund deducted $173,459 from distributions made to investors. $30,253 remains payable at 31 March 2018 and is shown on the statement of financial position).

Note 17. Contingent liabilities

There are no contingent liabilities to disclose in the financial statements.

Note 18. Commitments

	30 Sep 2018 $	31 March 2018 $
Capital commitments		
Committed at the reporting date but not recognised as liabilities:		
Investment properties	79,773	12,300,000

The Capital Expenditure Commitment at 30 September 2018 relates to the lift replacement at 5 Short Street, Newmarket, Auckland. A 40% deposit has been paid with the balance due in the next six months.

The Commitments to capital expenditure at 31 March 2018 on investment properties relate to the Purchase of 8 Rockridge Avenue, Penrose $12,150,000 and the upgrade to lifts at 5 Short Street $265,910 of which $115,910 was paid prior to year end.

Note 19. Related party transactions

The Fund's related parties consist of the Manager, the Supervisor, and members of key management personnel of the Manager and the Supervisor.

Transactions with related parties - The following transactions occurred with related parties:

	30 Sep 2018 $	30 Sep 2017 $
Payment for goods and services:		
Payment of Property Fund and management fees to the Manager	169,473	154,992
Payment of Project Management fees to the Manager	27,149	13,860
Payment of Performance fees to the Manager	-	198,637
Payment of Commission to the Manager for sale/purchase of property	171,500	-
Payment of Supervisor fees to the Supervisor	10,000	10,130
Payment of services to Forsite Limited (Manager-related entity, Scott McKenzie is a Director of the Manager)	4,200	920
Income was received by the Fund for		
Rent paid by the Manager for office in 5 Short Street, Newmarket	35,443	17,164
Investments in the Fund:		
Units held by Denis McMahon Family Trust (Manager-related entity, Denis McMahon, is a Director of the Manager)	200,000	200,000
Distribution made to Denis McMahon Family Trust	7,499	7,499
Units held by Property Managers Limited (Manager)	-	100,000
Distributions made to the Manager	937	1,589

Note 19. Related party transactions (continued)

Receivable from and payable to related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	30 Sep 2018 $	31 March 2018 $
Current payables:		
Trade payables to the Manager	36,759	80,286
Performance Fee payable to the Manager	-	403,286
Trade payables to the Supervisor	5,750	5,754
Distribution payable to Denis McMahon Family Trust	1,250	1,250

Loans to/from related parties
There were no loans to or from related parties at the current reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 20. Events after the reporting period

At 30 September 2018 the Fund has entered into a conditional agreement for the sale of 22 Amersham Way, Manukau for $7,800,000. This went unconditional on 10 September 2018 and is due to settle on 29 March 2019.

Crowe Horwath
New Zealand Audit Partnership
Member Crowe Horwath International
Level 1, Crowe Horwath House
57 Willis Street
Wellington 6011 New Zealand

PO Box 11976 Manners Street
Wellington 6142 New Zealand

Tel +64 4 471 0006
Fax +64 4 566 6077
www.crowehorwath.co.nz

INDEPENDENT REVIEW REPORT

To the Shareholders of PMG Direct Office Fund

Report on the Financial Statements

We have reviewed the accompanying 30 September 2018 financial statements of PMG Direct Office Fund, which comprise the statement of financial position as at 30 September 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 6 months then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the 30 September 2018 Financial Statements

The Directors of the Fund's Manager are responsible for the preparation and fair presentation of the 30 September 2018 financial statements in accordance with New Zealand Equivalents to the International Financial Reporting Standards, and for such internal control as they determine is necessary to enable the preparation of the 30 September 2018 financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the 30 September 2018 financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with the New Zealand Equivalents to International Financial Reporting Standards. As the auditor of PMG Direct Office Fund, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the 30 September 2018 financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on those financial statements.

Other than in our capacity as assurance practitioner, we have no relationship with, or interests in, PMG Direct Office Fund.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these 30 September 2018 financial statements of PMG Direct Office Fund do not present fairly, in all material respects, the financial position of the Fund as at 30 September 2018, and of its financial performance and its cash flows for the 6 months ended on that date, in accordance with the New Zealand Equivalents to International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations that we have required.

In our opinion proper accounting records have been kept by PMG Direct Office Fund as far as appears from our examination of those records.

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS

21 February 2019