

PMG Direct Office Fund

Financial Statements

For the year ended 31 March 2022

PMG Direct Office Fund
Directory
For the year ended 31 March 2022

Scheme number	SCH10921
Registration date	1 November 2016
Manager	PMG Property Funds Management Limited PO Box 2034 Tauranga 3144
Directors of the Manager	Denis McMahon Scott McKenzie Nigel Lowe Wayne Beilby Glenn Butterworth Jonathon Cameron (resigned 1 June 2022) Tony Pitt James Storey
Custodian	PMG Direct Office Fund Trustees Limited
Supervisor	Covenant Trustee Services Limited Level 6 191 Queen Street Auckland 1010
Principal place of business	Level 1 143 Durham Street Tauranga 3110
Auditor	Baker Tilly Staples Rodway Audit Limited Level 1, 247 Cameron Road Tauranga 3110
Solicitors	Simpson Grierson Private Bag 92518 Auckland 1141 Cooney Lees Morgan Level 3, 247 Cameron Road Tauranga 3110 Dentons Kensington Swan 89 The Terrace Wellington 6011
Bankers	ASB Business Banking 518 Cameron Road Tauranga
IRD Number	121-253-958

PMG Direct Office Fund
Contents
For the year ended 31 March 2022

Contents

Statement of Financial Position	Page 3
Statement of Profit or Loss and Other Comprehensive Income	Page 4
Statement of Changes in Equity	Page 5
Statement of Cash Flows	Page 6
Notes to the Financial Statements	Page 7
Independent Auditor's report	Page 34

PMG Direct Office Fund
Statement of Financial Position
As at 31 March 2022

		2022	2021
		Actual	Actual
	Note	\$	\$
Assets			
Current assets			
Cash and cash equivalents	6	201,398	486,334
Trade and other receivables	7	138,137	190,840
Other current assets	8	426,056	745,391
Derivative financial instruments	11	1,063,154	-
Investment property held for sale	9	-	13,573,571
Total current assets		<u>1,828,745</u>	<u>14,996,136</u>
Non-current assets			
Investment properties	9	<u>190,160,590</u>	<u>183,300,877</u>
Total non-current assets		<u>190,160,590</u>	<u>183,300,877</u>
Total assets		<u>191,989,335</u>	<u>198,297,013</u>
Liabilities			
Current liabilities			
Trade and other payables	10	757,305	757,514
PIE Tax Payable	10	-	74,678
Derivative financial instruments	11	-	865,755
Distributions payable	15	455,000	461,500
Other current liabilities	12	1,334,979	2,243,624
Lease liabilities - current portion	21	-	11,411
Total current liabilities		<u>2,547,284</u>	<u>4,414,482</u>
Non-current liabilities			
Borrowings	13	65,182,402	74,752,402
Lease liabilities - non current portion	21	<u>19,638,938</u>	<u>19,639,265</u>
Total non-current liabilities		<u>84,821,340</u>	<u>94,391,667</u>
Total liabilities		<u>87,368,624</u>	<u>98,806,149</u>
Net assets		<u>104,620,711</u>	<u>99,490,864</u>
Equity			
Issued units	14	81,829,573	81,829,573
Retained earnings		<u>22,791,138</u>	<u>17,661,291</u>
Total equity		<u>104,620,711</u>	<u>99,490,864</u>

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Director, PMG Property Funds Management Limited

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Director, PMG Property Funds Management 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 year ended 31 March 2022

		2022	2021
	Note	Actual \$	Actual \$
Revenue	4	13,721,126	11,560,336
Expenses			
Property operating expenses	5	2,747,425	2,395,888
Property and Fund management fees		1,109,924	926,557
Property and Fund Management performance fee		696,414	1,408,981
Supervisor fees		60,173	60,759
Administrative	5	287,764	213,909
		<u>4,901,700</u>	<u>5,006,094</u>
Operating profit		8,819,426	6,554,242
Net Finance expenses	5	3,631,478	2,568,576
Other Income and expenses			
Dividends Received		787	1,356
Net fair value gain on investment properties	9	4,128,211	9,708,977
Net loss on disposal of investment property	9	(477,258)	(285,127)
Fair value movement on derivative financial instruments		1,928,909	396,995
Net profit		<u>10,768,597</u>	<u>13,807,867</u>
Other Comprehensive Income		-	-
Total comprehensive income		<u>10,768,597</u>	<u>13,807,867</u>

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 year ended 31 March 2022

	Issued Units	Retained earnings	Total equity
2022	\$	\$	\$
Balance at 1 April 2021	81,829,573	17,661,291	99,490,864
Net profit for the year and total comprehensive income		10,768,597	10,768,597
Distributions to investors (note 15)		(5,638,750)	(5,638,750)
Balance at 31 March 2022	<u>81,829,573</u>	<u>22,791,138</u>	<u>104,620,711</u>
	Issued Units	Retained earnings	Total equity
2021	\$	\$	\$
Balance at 1 April 2020	46,110,774	8,714,091	54,824,865
Net profit for the year and total comprehensive income		13,807,867	13,807,867
Transactions with investors in their capacity as investors:			
Units issued during the year	37,760,000	-	37,760,000
Issue costs	(2,041,201)	-	(2,041,201)
Distributions to investors (note 15)		(4,860,667)	(4,860,667)
Balance at 31 March 2021	<u>81,829,573</u>	<u>17,661,291</u>	<u>99,490,864</u>

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 year ended 31 March 2022

		2022	2021
	Note	\$	\$
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		14,081,793	11,436,143
Dividend Income		787	2,732
Interest income		-	1,356
Cash was applied to:			
Payments to suppliers		(5,779,711)	(4,016,179)
Interest and other finance costs paid		(3,653,013)	(2,609,948)
GST received/(paid)		(72,615)	88,093
Net cash inflow/(outflow) from operating activities	22	<u>4,577,241</u>	<u>4,902,197</u>
Cash flows from investing activities			
Cash was provided from:			
Sale of investment properties		13,353,674	20,356,270
Cash was applied to:			
Purchase of investment property and capital expenditure		<u>(3,000,601)</u>	<u>(98,505,037)</u>
Net cash inflow/(outflow) from investing activities		<u>10,353,073</u>	<u>(78,148,767)</u>
Cash flows from financing activities			
Cash was provided from:			
Proceeds from issue of share capital		-	37,760,000
Proceeds from borrowings		-	63,087,000
Cash was applied to:			
Repayment of borrowings		(9,570,000)	(20,550,000)
Unit issue transaction costs		-	(2,041,202)
Distributions to investors	15	<u>(5,645,250)</u>	<u>(4,686,667)</u>
Net cash inflow/(outflow) from financing activities		<u>(15,215,250)</u>	<u>73,569,131</u>
Net increase in cash and cash equivalents		(284,936)	322,561
Cash and cash equivalents at the start of the financial period		<u>486,334</u>	<u>163,773</u>
Cash and cash equivalents at the end of the financial period	6	<u><u>201,398</u></u>	<u><u>486,334</u></u>

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



PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

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 PMG Property Fund Management 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 financial statements have been prepared for the Fund by the Manager, on behalf of the Supervisor, in accordance with the requirements of the Financial Reporting Act 2013 (FRA), the FMCA and the provisions of the Trust Deeds.

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 29 June 2022.

As required by FRS-42 – Prospective Financial Statements, the prospective financial information provided in the Product Disclosure Statement of the Fund, issued 22 May 2020, has been provided for comparative purposes in these financial statements. Any major variances in actual financial information compared to the prospective financial information are provided in note 23.

Basis of measurement

The financial statements have been prepared on the historical cost basis, and the going concern assumption 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 principal accounting policies adopted in the preparation of the financial statements are set out below.

New, revised or amended Accounting Standards and Interpretations adopted

There were no new, revised or amended Accounting Standards and Interpretations issued by the External Reporting Board ('XRB') that were mandatory for the current reporting period and had a significant impact on the Fund. As a result there were no changes in these financial statements as a result of adopting the new Accounting Standards.

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

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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 1. Significant accounting policies (continued)

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. Specific revenue accounting policies are as follows:

Rent concessions occurring as a direct consequence of the covid-19 pandemic have not been treated as lease modifications and are recognised in the period provided, having met the requirements of NZ IFRS 16, being:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- any reduction in lease payments affects only payments originally due on or before 30 June 2022
- there are no substantive changes to other terms and conditions of the leases.

Rent

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives/inducements granted are recognised as current 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 IFRS 16 *Leases*, and so are outside the scope of NZ IFRS 15 *Revenue from Contracts with Customers*. The Outgoings recovered that are dealt with under the scope of NZ IFRS 16 *Leases* are because they are closely related to the lease of the building and the tenant doesn't receive an additional separate service to the space when it reimburses those items to the Fund. These are expenses such as rates, insurance, lift expenses, valuation, fire expenses, plumbing and electricity maintenance and air conditioning services.

The outgoings recovered that the Fund has identified as being under the scope of NZ IFRS 15 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.

Dividend Income

Dividend 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%.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 1. Significant accounting policies (continued)

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, include lease receivables which 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 of the receivable 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.

As 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.

As a Lessee: The Fund is a Lessee in respect of a carpark lease contract associated with the Tuam Street property and a ground lease in respect of the Fanshawe Street property. The Fund recognises a right of use asset and a lease liability in relation to this lease. The Right of Use asset is initially measured at cost, which comprises the minimum lease payments at the initial commencement date, plus any initial direct costs incurred, less any lease incentives received. The Right of Use asset is subsequently measured to fair value annually to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the later of the lease commencement date and the date of accounting policy adoption, discounted using the Fund's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the Right of Use asset, or is recorded in profit or loss if the carrying amount of the Right of Use asset has been reduced to zero. The Fund presents lease liabilities on the face of the Statement of Financial Position, to clearly highlight the difference between these and the Fund's bank borrowings. Right of Use assets that meet the definition of investment property are presented together with other investment properties.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

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.

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.

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

Derivatives consist of interest rate swaps that are only used for economic hedging purposes and not as speculative investments. The Fund has elected not to apply hedging accounting criteria to these instruments. As such, the interest rate swaps are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

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.



PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 1. Significant accounting policies (continued)

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) plus property acquisition costs 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.

Property Project Fees Expenses

The Manager is entitled on acquisition of a new property by the Fund, to 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 an Offer, 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 2 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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

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.

Management are required to use judgement in determining the Incremental Borrowing Rate (IBR) pursuant to NZ IFRS 16 Leases in relation to valuing Lease liabilities. The criteria used to calculate the IBR is the Base Rate plus the Credit Risk spread of the Lessee and adjusted for the nature of the lease.

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.

NZ 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 is reported to the CODM on at least a monthly basis.

Types of products and services

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

Major customers

During the years ended 31 March 2022 and 31 March 2021 a new customer is now generating more than 10% of the annual rental for the Fund as it has an annual rental of \$3,913,119 (including covid rent relief) (which is approximately 34% of the Funds total current revenue).

Key metrics

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

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 3. Operating segments

Geographical location of non-current assets

The majority of non-current assets are located within the Upper North Island of New Zealand, except for Tuam Street which is in the South Island.

Note 4. Revenue

Revenue is accounted for in accordance with NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 16 Leases. 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.

	2022 \$	2021 \$
<i>Sales revenue</i>		
Rent from investment properties	11,145,425	9,396,392
Other income	53,728	-
Operating expense recoveries – NZ IFRS 16 Leases	1,900,161	1,677,717
Operating expenses recoveries – NZ IFRS 15 Revenue from contracts with customers	621,812	486,227
	<u>13,721,126</u>	<u>11,560,336</u>

Rent concession made as a direct result of covid-19 pandemic in the current period \$297,574 (2021: \$238,944)

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 Provision for Expected Credit Losses

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.

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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 5. Specific expenses

	2022 \$	2021 \$
Net profit before tax includes the following specific expenses:		
<i>Property operating expenses</i>		
Expenses on investment property that generated rental income	2,747,425	2,395,888
<i>Administrative</i>		
Auditors remuneration – financial statements audit & assurance services	56,243	71,000
Accountants remuneration	7,225	12,850
Consultancy & Legal fees	8,141	41,773
Valuation fees	111,103	30,019
Other Administration costs	105,052	58,267
	<u>287,764</u>	<u>213,909</u>
<i>Net finance expenses</i>		
Interest and finance charges paid/payable	3,631,478	2,571,299
Interest revenue	-	(2,732)
	<u>3,631,478</u>	<u>2,568,576</u>

Note 6. Cash and cash equivalents

	2022 \$	2021 \$
Cash at bank/(overdraft) – ASB Bank Limited	201,398	486,334
	<u>201,398</u>	<u>486,334</u>

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

	2022 \$	2021 \$
Trade receivables	13,685	38,042
Other receivables	124,452	152,798
	<u>138,137</u>	<u>190,840</u>

Expected credit loss of receivables

The Fund has recognised no amount in profit or loss in respect of expected credit loss of receivables for the year ended 31 March 2022 or the year ended 31 March 2021.

Past due but without a loss allowance

There are no customers with balances past due but without a loss allowance for expected credit loss of receivables as at 31 March 2022 or 31 March 2021.

Management has used a provision matrix to determine the expected credit loss. No adjustment was made for the expected credit loss in the 31 March 2022 or 31 March 2021 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

	2022 \$	2021 \$
Lease Adjustments	185,803	493,767
Prepayments	143,648	151,840
Deferred Commission	96,605	99,784
	<u>426,056</u>	<u>745,391</u>

Lease Adjustments are made up of lease inducements paid to tenants to induce them to enter into the lease and also the adjustments made to revenue to spread the fixed rent increases that are in the leases across the term of the leases.

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 9. Investment properties

Acquisition of investment properties

In the year ended 31 March 2022 the Fund purchased no investment property. In the year ended 31 March 2021 the Fund purchased two investment properties, 152 Fanshawe Street, Auckland and 213 Tuam Street, Christchurch.

Sale of investment properties

In the year ended 31 March 2022 the Fund sold 2 Robert Street, Ellerslie. In the year ended 31 March 2021 the Fund sold 5 Short Street, Newmarket.

Investment property held for sale

As at 31 March 2022 there is no Investment Property held for sale. At 31 March 2021 the 2 Robert Street property was held for sale.

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.

Valuation to market value is performed based on a variety of complementary approaches, including the income approach (direct capitalisation), the market 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.

Valuation amounts are adjusted for lease adjustments and deferred commission balances in order to ensure these are not double counted.

Given the circumstances of COVID-19 valuers have had regard to a range of inputs and market evidence in coming to their opinion of market value. It has also been noted within some reports that there may be a greater range of opinion around market value and that more regular review of valuations should be undertaken than in normal circumstances.

Reconciliation of investment properties held at 31 March 2022:

Property	Valuation amount at 31 March 2021 \$	Capital cost during period \$	Purchase Price/ (Net Sale Proceeds) \$	Fair valuation movement \$	Loss on Disposal \$	Movement in lease adj. and deferred commission \$	Valuation amount at 31 March 2022 \$
2 Robert Street, Ellerslie, Auckland	13,800,000	30,932	(13,353,674)	-	(250,829)	(226,429)	-
143 Durham Street, Tauranga	9,175,000	530,324	-	1,798,120		(3,444)	11,500,000
127 Durham Street, Tauranga	4,550,000	10,788	-	439,122		90	5,000,000
8 Rockridge Avenue, Auckland	14,900,000	1,679,608	-	(2,572,254)		(7,354)	14,000,000
410 Victoria Street/12 Alma Street, Hamilton	8,550,000	99,498	-	547,980		2,522	9,200,000
65B Main Highway, Auckland	26,650,000	113,496	-	3,759,921		(23,417)	30,500,000
213 Tuam Street, Christchurch	64,700,000	26,165	-	591,224		(117,389)	65,200,000
213 Tuam Street, carpark lease	4,400,000	-	-	200,000		-	4,600,000
152 Fanshawe Street, Auckland	36,500,000	271,623	-	(635,901)		64,278	36,200,000
152 Fanshawe Street, ground lease	14,242,999	-	-	(1)		-	14,242,998
Total Investment Property	197,467,999	2,762,434	(13,353,674)	4,128,211	(250,829)	(311,143)	190,442,998

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 9. Investment properties (continued)

Reconciliation of investment properties fair value at 31 March 2022:

Property	Valuation amount at 31 March 2022 \$	Less Lease Adjustments \$	Less Deferred Commission \$	Fair Value at 31 March 2022 \$
143 Durham Street, Tauranga	11,500,000	(45,642)	(25,893)	11,428,465
127 Durham Street, Tauranga	5,000,000	(13,682)	-	4,986,318
8 Rockridge Avenue, Auckland	14,000,000	(58,275)	(67,551)	13,874,174
410 Victoria Street/12 Alma Street, Hamilton	9,200,000	(15,195)	(3,161)	9,181,644
65B Main Highway, Auckland	30,500,000	(122,874)	-	30,377,126
213 Tuam Street, Christchurch	65,200,000	155,293	-	65,355,293
213 Tuam Street, carpark lease	4,600,000	-	-	4,600,000
152 Fanshawe Street, Auckland	36,200,000	(85,428)	-	36,114,572
152 Fanshawe Street, ground lease	14,242,998	-	-	14,242,998
Total Investment Property	190,442,998	(185,803)	(96,605)	190,160,590

	2022 \$	2021 \$
Investment Property held for sale	-	13,573,571
Investment Properties	190,160,590	183,300,877
	<u>190,160,590</u>	<u>196,874,448</u>

Key valuation considerations:

Property	Valuer	Net market income \$	Equivalent Yield	Residual lease term
143 Durham Street, Tauranga	Jones Lang LaSalle	\$689,824	5.65%	2.91 years
127 Durham Street, Tauranga	Telfer Young	\$245,722	4.53%	7.00 years
8 Rockridge Avenue, Auckland	Jones Lang LaSalle	\$1,030,235	6.18%	0.88 years
410 Victoria Street/12 Alma Street, Hamilton	Jones Lang LaSalle	\$572,863	5.81%	2.34 years
65B Main Highway, Auckland	Jones Lang LaSalle	\$1,690,280	5.44%	3.79 years
213 Tuam Street, Christchurch	CBRE Limited	\$3,131,443	4.97%	6.38 years
152 Fanshawe Street, Auckland	Jones Lang LaSalle	\$3,479,684	6.45%	2.11 years

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 9. Investment Properties (continued)

Reconciliation of investment properties held at 31 March 2021:

Property	Valuation amount at 31 March 2020 \$	Capital cost during period \$	Purchase Price/ (Net Sale Proceeds) \$	Fair valuation movement \$	Loss on disposal \$	Movement in lease adj. and deferred commission \$	Valuation amount at 31 March 2021 \$
5 Short Street, Newmarket, Auckland	20,500,000	221,393	(20,299,684)	-	(285,127)	(136,582)	-
2 Robert Street, Ellerslie, Auckland	12,400,000	36,802	-	1,312,272		50,926	13,800,000
143 Durham Street, Tauranga	7,600,000	1,209,174	-	334,432		31,394	9,175,000
127 Durham Street, Tauranga	4,000,000	-	-	545,410		4,590	4,550,000
8 Rockridge Avenue, Auckland	13,500,000	91,797	-	1,358,987		(50,784)	14,900,000
410 Victoria Street/12 Alma Street, Hamilton	8,500,000	72,772	-	(21,048)		(1,724)	8,550,000
65B Main Highway, Auckland	23,750,000	607,681	-	2,229,269		63,050	26,650,000
213 Tuam Street, Christchurch	50,590	779,120	58,650,000	5,258,194		(37,904)	64,700,000
213 Tuam Street, carpark lease	-	-	5,408,033	(1,008,033)		-	4,400,000
152 Fanshawe Street, Auckland	-	529,356	36,250,000	(300,506)		21,150	36,500,000
152 Fanshawe Street, ground lease	-	-	14,242,999	-		-	14,242,999
Total Investment Property	90,300,590	3,548,095	94,251,348	9,708,977	(285,127)	(55,884)	197,467,999

Reconciliation of investment properties fair value at 31 March 2021:

Property	Valuation amount at 31 March 2021 \$	Less Lease Adjustments \$	Less Deferred Commission \$	Fair Value at 31 March 2021 \$
2 Robert Street, Ellerslie, Auckland	13,800,000	(194,982)	(31,447)	13,573,571
143 Durham Street, Tauranga	9,175,000	(44,742)	(30,237)	9,100,021
127 Durham Street, Tauranga	4,550,000	(13,592)	-	4,536,408
8 Rockridge Avenue, Auckland	14,900,000	(95,080)	(38,100)	14,766,820
410 Victoria Street/12 Alma Street, Hamilton	8,550,000	(15,834)	-	8,534,166
65B Main Highway, Auckland	26,650,000	(146,291)	-	26,503,709
213 Tuam Street, Christchurch	64,700,000	37,904	-	64,737,904
213 Tuam Street, carpark lease	4,400,000	-	-	4,400,000
152 Fanshawe Street, Auckland	36,500,000	(21,150)	-	36,478,850
152 Fanshawe Street, ground lease	14,242,999	-	-	14,242,999
Total Investment Property	197,467,999	(493,767)	(99,784)	196,874,448

Key valuation considerations:

Property	Valuer	Net market income \$	Yield on net market income	Residual lease term
2 Robert Street, Ellerslie, Auckland	Jones Lang LaSalle	\$833,128	5.98%	4.67 years
143 Durham Street, Tauranga	Telfer Young	\$568,048	6.19%	3.70 years
127 Durham Street, Tauranga	Telfer Young	\$232,344	5.11%	3.00 years
8 Rockridge Avenue, Auckland	Jones Lang LaSalle	\$1,044,976	6.98%	1.37 years
410 Victoria Street/12 Alma Street, Hamilton	Telfer Young	\$572,337	6.44%	4.20 years
65B Main Highway, Auckland	Aim Valuation Limited	\$1,688,563	6.35%	4.79 years
213 Tuam Street, Christchurch	CBRE Limited	\$3,089,444	5.75%	7.38 years
152 Fanshawe Street, Auckland	Jones Lang LaSalle	\$2,532,964	7.08%	3.48 years

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 9. Investment Properties (continued)

Fair value measurement

Fair value hierarchy

The following details the Fund's assets, 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 carrying value of \$190,160,590 at 31 March 2022 (2021: \$196,874,448).

Valuation techniques for fair value measurements categorised within 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.

Level 3 assets

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

Description	Unobservable inputs	2022 Range (weighted average)	2021 Range (weighted average)
Investment properties	Rental yield	4.58% to 6.82% (5.81%)	5.06% to 7.00% (6.10%)
	Rental growth	1.83% to 2.65% (2.46%)	1.67% to 2.46% (2.23%)
	Market capitalisation rate	4.50% to 6.50% (5.50%)	5.00% to 6.75% (5.91%)
	Discount rate	4.97% to 7.00% (6.25%)	5.50% to 7.70% (6.53%)

Sensitivity Analysis

At 31 March 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 \$1,901,606 (2021: \$1,968,744).



PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 10. Trade and other payables

	2022 \$	2021 \$
Trade payables	753,343	680,937
PIE Tax payable	-	74,678
GST payable	3,962	76,577
	<u>757,305</u>	<u>832,192</u>

Refer to note 16 for further information on financial instruments.

Note 11. Derivative financial instruments

The Fund holds derivative financial instruments at fair value through profit and loss in the form of interest rate swaps to reduce interest rate risk. At 31 March 2022, interest rate swaps had a notional value of \$46,000,000. Fair value has been determined by ASB Bank Limited.

	2022 \$	2021 \$
Interest rate swaps – ASB Bank Limited	<u>1,063,154</u>	<u>(865,755)</u>

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 31 March 2022

Details	Maturity date	Notional value	Fixed interest rate	Fair value \$
Interest rate swap 1	15 August 2022	3,000,000	2.66%	(10,271)
Interest rate swap 2	14 December 2022	4,000,000	1.66%	21,934
Interest rate swap 3	14 April 2023	6,000,000	2.17%	36,666
Interest rate swap 4	3 July 2023	8,000,000	1.29%	166,286
Interest rate swap 5	1 July 2024	8,000,000	1.34%	348,599
Interest rate swap 6	14 March 2023	6,000,000	0.66%	118,722
Interest rate swap 7	14 March 2024	6,000,000	0.88%	275,064
Interest rate swap 8	30 November 2024	<u>5,000,000</u>	2.56%	<u>106,154</u>
		<u>46,000,000</u>		<u>1,063,154</u>

At 31 March 2021

Details	Maturity date	Notional value	Fixed interest rate	Fair value \$
Interest rate swap 1	14 December 2021	8,000,000	2.31%	(115,203)
Interest rate swap 2	16 August 2021	3,000,000	2.51%	(26,940)
Interest rate swap 3	15 August 2022	3,000,000	2.66%	(94,040)
Interest rate swap 4	14 December 2022	4,000,000	1.66%	(82,161)
Interest rate swap 5	14 April 2023	6,000,000	2.17%	(204,869)
Interest rate swap 6	3 July 2023	8,000,000	1.29%	(135,909)
Interest rate swap 7	1 July 2024	8,000,000	1.34%	(155,364)
Interest rate swap 8	14 March 2023	6,000,000	0.66%	(17,722)
Interest rate swap 9	14 March 2024	<u>6,000,000</u>	0.88%	<u>(33,546)</u>
		<u>52,000,000</u>		<u>(865,755)</u>

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.



PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2022

Note 12. Other current liabilities

	2022 \$	2021 \$
Accrued expenses	836,479	1,700,210
Income received in advance	498,500	543,414
	<u>1,334,979</u>	<u>2,243,624</u>

Note 13. Borrowings

	2022 \$	2021 \$
Bank loans	65,182,402	74,752,402
	<u>65,182,402</u>	<u>74,752,402</u>

Assets pledged as security

The bank loans are secured by first ranking mortgages over the Fund's investment properties. There is also a General Security Deed held by ASB over all assets and undertakings of the Fund.

Financing arrangements

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

	2022 \$	2021 \$
Total facilities		
Bank overdraft	-	-
Bank loans	66,124,000	76,124,000
	<u>66,124,000</u>	<u>76,124,000</u>
Used at the reporting date		
Bank overdraft	-	-
Bank loans	65,182,402	74,752,402
	<u>65,182,402</u>	<u>74,752,402</u>

Note 14. Issued units

	2022 Units	2021 Units	2022 \$	2021 \$
Units - fully paid	78,000,000	78,000,000	85,920,000	85,920,000

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	-		(911,011)
Issue of units	17 April 2019	18,000,000	\$1.12	20,160,000
Unit issue transaction costs, net of tax	17 April 2019	-		(1,138,214)
Issue of units	30 June 2020	32,000,000	\$1.18	37,760,000
Unit issue transaction costs, net of tax	30 June 2020	-		(2,041,201)
Balance	31 March 2022	<u>78,000,000</u>		<u>81,829,573</u>



PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 14. Issued units continued

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.

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 15. Distributions

Distributions

In the year ended 31 March 2022 a distribution was paid on the 25th of each month as set out on the following page. On 31 March 2022 the Directors of the Manager declared a final distribution for the period ended 31 March 2022 of 0.5833 cents per unit which was paid on 25 April 2022, a total distribution of \$455,000 based on the number of units on issue as at 31 March 2022. 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 financial year were as follows:

	2022
	\$
Distribution paid for period ended 30 April 2021 0.5917 cents per unit	490,750
Distribution paid for period ended 31 May 2021 0.6292 cents per unit	490,750
Distribution paid for period ended 30 June 2021 0.6292 cents per unit	490,750
Distribution paid for period ended 31 July 2021 0.6292 cents per unit	490,750
Distribution paid for period ended 31 August 2021 0.6292 cents per unit	490,750
Distribution paid for period ended 30 September 2021 0.5833 cents per unit	455,000
Distribution paid for period ended 31 October 2021 0.5833 cents per unit	455,000
Distribution paid for period ended 30 November 2021 0.5833 cents per unit	455,000
Distribution paid for period ended 31 December 2021 0.5833 cents per unit	455,000
Distribution paid for period ended 31 January 2022 0.5833 cents per unit	455,000
Distribution paid for period ended 28 February 2022 0.5833 cents per unit	455,000
Distribution paid for period ended 31 March 2022 0.5833 cents per unit	455,000
	<hr/>
	5,638,750
	<hr/>



PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 15. Distributions (continued)

Distributions paid in the previous financial year were as follows:

	2021
	\$
Distribution paid for period ended 30 April 2020 0.625 cents per unit	287,500
Distribution paid for period ended 31 May 2020 0.625 cents per unit	287,500
Distribution paid for period ended 30 June 2020 0.5417 cents per unit	249,167
Distribution paid for period ended 31 July 2020 0.5417 cents per unit	422,500
Distribution paid for period ended 31 August 2020 0.5417 cents per unit	422,500
Distribution paid for period ended 30 September 2020 0.5417 cents per unit	422,500
Distribution paid for period ended 31 October 2020 0.5917 cents per unit	461,500
Distribution paid for period ended 30 November 2020 0.5917 cents per unit	461,500
Distribution paid for period ended 31 December 2020 0.5917 cents per unit	461,500
Distribution paid for period ended 31 January 2021 0.5917 cents per unit	461,500
Distribution paid for period ended 28 February 2021 0.5917 cents per unit	461,500
Distribution paid for period ended 31 March 2021 0.5917 cents per unit	461,500
	<hr/>
	4,860,667

PIE tax deducted at source

During the financial period, the Fund deducted \$81,846 from distributions made to investors. \$Nil remains payable at 31 March 2022 and is shown in the statement of financial position. (During the 2021 financial period, the Fund deducted \$177,566 from distributions made to investors. \$74,678 remained payable at 31 March 2021 and is shown on the statement of financial position).

Note 16. 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 (of the Manager) under policies approved by the Supervisor. 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.

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 16. Financial instruments (continued)

The Fund's bank loans outstanding, totalling \$65,182,402, are interest-only payment loans. Monthly cash outlays of approximately \$204,033 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 \$191,824 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.

Financing arrangements

Unused borrowing facilities at the reporting date:

	2022 \$	2021 \$
Bank Overdraft	-	-
Bank loans	941,598	1,371,598
	<u>941,598</u>	<u>1,371,598</u>

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.

2022	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	757,305	-	-	-	757,305
Other payables	-%	140,065	-	-	-	140,065
Distributions payable	-%	455,000	-	-	-	455,000
<i>Interest-bearing - floating rate</i>						
Bank overdraft		-	-	-	-	-
Bank loans	3.62%	2,045,232	31,314,445	35,657,039	-	69,016,716
Total non-derivatives		<u>3,397,602</u>	<u>31,314,445</u>	<u>35,657,039</u>	<u>-</u>	<u>70,369,086</u>
Derivatives						
Interest Rate Swaps	1.61-2.66%	(636,043)	(317,112)	(111,943)	-	(1,065,098)
Total derivatives		<u>(636,043)</u>	<u>(317,112)</u>	<u>(111,943)</u>	<u>-</u>	<u>(1,065,098)</u>

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 16. Financial instruments (continued)

2021	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	680,937	-	-	-	680,937
Other payables	-%	1,498,754	-	-	-	1,498,754
Distributions payable	-%	461,500	-	-	-	461,500
<i>Interest-bearing - floating rate</i>						
Bank overdraft		-	-	-	-	-
Bank loans	2.67%	1,966,134	1,966,134	75,489,591	-	79,421,859
Total non-derivatives		<u>4,607,325</u>	<u>1,966,134</u>	<u>75,489,591</u>	<u>-</u>	<u>82,063,050</u>
Derivatives						
Interest Rate Swaps	0.66-2.66%	613,509	414,304	164,997	-	1,192,809
Total derivatives		<u>613,509</u>	<u>414,304</u>	<u>164,997</u>	<u>-</u>	<u>1,192,809</u>

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 31 March 2022 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.

At 31 March 2022 it is estimated that a general increase of 1% in interest rates would have decreased the Funds profit before income tax by \$191,824 (2021: \$236,580). 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

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 \$1,063,154 (2021: (\$865,755)).

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.

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 1. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.



PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 16. Financial instruments (continued)

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 \$
31 March 2022				
Financial Assets/(Liabilities) Designated at fair value				
Derivative Financial Instruments	1,063,154	0	1,063,154	0
Total Financial Assets/(Liabilities)	1,063,154	0	1,063,154	0
	Total Carrying Amount \$	Level 1 \$	Level 2 \$	Level 3 \$
31 March 2021				
Financial Assets/(Liabilities) Designated at fair value				
Derivative Financial Instruments	(865,755)	0	(865,755)	0
Total Financial Assets/(Liabilities)	(865,755)	0	(865,755)	0

Note 17. Contingent liabilities

There are no contingent liabilities at 31 March 2022. (2021: There is a contingent liability at 31 March 2021 for a tenancy underwrite agreement that was included in the Sale and Purchase Agreement when the Fund sold Short Street. The underwrite expires in December 2021. There has been an accrual made for the expected cost of this of \$162,658. If higher vacancy than projected by Management in their forecast the Fund is liable for any shortfall between the amount guaranteed in the Sale and Purchase Agreement and the amount received).

Note 18. Commitments

	2022 \$	2021 \$
Capital commitments		
Committed at the reporting date but not recognised as liabilities:		
Investment properties	1,100,207	0

The Capital Expenditure Commitment at 31 March 2022 related to a \$124,000 commitment to capital expenditure on the bathrooms at Victoria Street, \$62,942 on the plant room at Main Highway, \$65,000 on air conditioning at Fanshawe Street and \$848,265 on a Lobby Upgrade and Level 3 Fit-out work on the Rockridge property.

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

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:

	2022	2021
	\$	\$
Payment for goods and services:		
Payment of Property Fund and management fees to the Manager	1,109,924	926,557
Payment of Project Management fees to the Manager	98,150	82,554
Payment of Performance fees to the Manager	-	1,186,480
Payment of Commission to the Manager for the sale or acquisition of property	137,000	1,159,000
Payment of Equity Raise Costs to the Manager	-	96,205
Payment of Brokerage/Underwriting Fee	-	1,684,450
Payment of Supervisor fees to the Supervisor	60,173	60,759
Payment of services to Forsite Limited (Manager-related entity, Scott McKenzie and Wayne Beilby are Director's in Forsite and of the Manager)	10,120	9,780
Rental receipt from Forsite Limited	-	33,432

Income was received by the Fund for

Rent paid by the Manager for office in 5 Short Street, Newmarket and 143 Durham Street, Tauranga	106,348	185,422
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Investments in the Fund:

	2022 Units	2021 Units
Units held by D & S McMahon Family Trust (Manager-related entity, Denis McMahon, is a Director of the Manager)	265,000	205,000
Units held by PMG Capital Fund Limited	-	2,785,000
Units held by Piwakawaka Trust (Scott McKenzie's Trust) (Director of the Manager)	570,000	190,000
Units held by NS & MK Lowe Family Trust (Director of the Manager)	415,000	200,000
Units held by PMG Investments 2021 Limited	-	1,275,000
Units held by close family members of Directors of the Manager	10,000	-
Units held by D McMahon	60,000	-

During the period PMG Capital Fund Limited also held units (2,785,000 at 1 April 2021, with the full amount sold by 3 May 2021).

Distributions were paid on the units held above at the same rate as other Investor Distributions.

(2021: PMG Direct Office Fund had arranged a \$2.5 million deposit fee to be paid by PMG Capital Fund Limited to Cooney Lees Morgan for the Tuam property. PMG Direct Office Fund paid PMG Capital Fund Limited a Deposit fee of \$150,000.)

Receivable from and payable to related parties

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

	2022	2021
	\$	\$
Current payables:		
Trade payables to the Manager	141,514	124,547
Performance Fee payable to the Manager	-	1,186,480
Trade payables to the Supervisor	17,357	15,535

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.



PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 20. Lessor Operating Lease

The Fund's investment property has the following minimum lease payments receivable under non-cancellable operating leases:

	2022	2021
	\$	\$
Not later than one year	10,277,975	11,812,069
Later than one year and not later than two years	8,690,053	10,619,063
Later than two years and not later than three years	7,846,704	9,046,809
Later than three years and not later than four years	6,891,121	8,175,410
Later than four years and not later than five years	5,219,171	7,237,016
Later than five years	6,031,108	11,664,260
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Total Lease payments receivable	44,956,132	58,554,629

The leases are subject to rent reviews and have renewal dates, whereby lessees have the right to renew for an agreed term.

Note 21. Leases

Lease liabilities summary

Opening value	Additions	Interest charged	Total Payments	Closing Balance
1 April 2021				31 March 2022
19,650,676	0	1,183,080	(1,194,818)	19,638,938

The Fund pays an annual rental for the right to use the car park at the Tuam Street property. The annual rental increases by 2.25% every year apart from every sixth year when a market review takes place. As at 31 March 2022 the annual rental for the car park lease was \$331,270 plus GST. A portion of this amount is then on-charged to the tenant. The lease began with a 999 year term, commencing in September 2016. The Fund has the following minimum lease payments payable under its car park lease as calculated under the requirements of NZ IFRS16:

	2022	2021
	\$	\$
Not later than one year	331,270	331,270
Later than one year and not later than two years	331,270	331,270
Later than two years and not later than three years	331,270	331,270
Later than three years and not later than four years	331,270	331,270
Later than four years and not later than five years	331,270	331,270
Later than five years	328,645,252	328,976,522
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Total Lease payments payable	330,301,602	330,632,872

The Fund pays an annual rental of \$859,200 for the ground lease at Fanshawe Street. The rental is reviewed every seven years from August 2019 and is set at 6% of the market value of the land at the time of review. As at 31 March 2022 the annual rental for the ground lease was \$859,200 plus GST. The lease began with a 150 year term, commencing in August 2004. The Fund has the following minimum lease payments payable under its ground lease as calculated under the requirements of NZ IFRS16:

	2022	2021
	\$	\$
Not later than one year	859,200	859,200
Later than one year and not later than two years	859,200	859,200
Later than two years and not later than three years	859,200	859,200
Later than three years and not later than four years	859,200	859,200
Later than four years and not later than five years	859,200	859,200
Later than five years	112,119,715	112,978,915
	<hr/>	<hr/>
Total Lease payments payable	116,415,715	117,274,915

Total cash outflow relating to lease interest and principal payments during the year was \$1,194,818. (2021: \$488,208).

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 22. Events after the reporting period

The Fund has arranged a new loan facility for \$5 million to fund upcoming capital expenditure projects. \$2 million had been drawn down at the date of signing the financial statements.

Note 23. Reconciliation of profit after income tax to net cash from operating activities

	2022 \$	2021 \$
Profit after income tax expense for the year	10,768,597	13,807,867
Adjustments for non cash items:		
Net fair value movement on investment properties	(4,128,211)	(9,708,977)
Net loss on disposal of investment property	477,258	285,127
Net fair value movement on derivative financial instruments	(1,928,909)	(396,995)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	52,703	(130,505)
Decrease in prepayments	8,192	(81,083)
Decrease in trade and other payables	(2,272)	200,624
Decrease in accrued expenses	(863,731)	543,461
Decrease in lease adjustments	307,964	6,312
Decrease in deferred expenses	3,179	49,572
Decrease in Income received in advance	(44,914)	238,701
Decrease in GST payable	(72,615)	88,093
Net cash inflow/(outflow) from operating activities	<u>4,577,241</u>	<u>4,902,197</u>

Note 24. Comparison to prospective financial statements

A comparison to the prospective financial statements, as issued in the Product Disclosure Statement (PDS) issued 22 May 2020, has been provided below. The key differences between actuals and the product disclosure statement are noted below:

Statement of Financial Position and Changes in Equity

- Net borrowings were more due to the purchase of Fanshawe Street, which also made Investment properties higher than projected.
- Derivative Financial Instruments were less than projected due to new swaps being taken out at lower rates.
- Other current liabilities were higher due to Income in advance was higher due to tenants paying rent for April prior to 31 March.

Statement of Profit or Loss and Other Comprehensive Income

- The Manager is entitled to a performance fee based on the performance of the Fund. The Prospective Financial Statements had no performance fee payable in them.
- Property Income, Operating costs and finance expenses were higher than forecast due to the Fanshawe Street income and expenses not being included in the projections.
- Due to the inherent uncertainty of fair value movements the prospective financial statements did not include gains or losses related to investment properties or derivatives financial instruments. Both had fair value gains in the current financial year.

Statement of Cash Flows

- Higher number of properties owned, leading to increased receipts from tenants and payments to suppliers.
- Higher interest costs due to increased average amount of borrowings throughout the year.
- Property sold during the year was not in forecast in the prospective financial statements. Proceeds used, in part, to pay back borrowings.
- Distributions were lowered due to COVID relief offered to tenants throughout the period.

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 24. Comparison to prospective financial statements continued

Statement of Financial Position

		2022 Actual \$	Prospective	Variation
	Note			
Assets				
Current assets				
Cash and cash equivalents	6	201,398	178,486	22,912
Trade and other receivables	7	138,137	-	138,137
Other current assets	8	426,056	628,594	(202,538)
Derivative financial instruments	11	1,063,154		1,063,154
Investment property held for sale	9	-	-	0
Total current assets		<u>1,828,745</u>	<u>807,080</u>	<u>1,021,665</u>
Non-current assets				
Investment properties	9	<u>190,160,590</u>	<u>156,724,734</u>	<u>33,435,856</u>
Total non-current assets		<u>190,160,590</u>	<u>156,724,734</u>	<u>33,435,856</u>
Total assets		<u>191,989,335</u>	<u>157,531,814</u>	<u>34,457,521</u>
Liabilities				
Current liabilities				
Trade and other payables	10	757,305	465,841	291,464
PIE Tax Payable	10	-	-	0
Derivative financial instruments	11	-	1,262,750	(1,262,750)
Distributions payable	15	455,000	503,333	(48,333)
Other current liabilities	12	1,334,979	-	1,334,979
Lease liabilities - current portion	21	-	315,130	(315,130)
Total current liabilities		<u>2,547,284</u>	<u>2,547,054</u>	<u>230</u>
Non-current liabilities				
Borrowings	13	65,182,402	58,515,402	6,667,000
Lease liabilities - non current portion	21	<u>19,638,938</u>	<u>4,692,058</u>	<u>14,946,880</u>
Total non-current liabilities		<u>84,821,340</u>	<u>63,207,460</u>	<u>21,613,880</u>
Total liabilities		<u>87,368,624</u>	<u>65,754,514</u>	<u>21,614,110</u>
Net assets		<u>104,620,711</u>	<u>91,777,300</u>	<u>12,843,411</u>
Equity				
Issued units	14	81,829,573	84,129,124	(2,299,551)
Retained earnings		<u>22,791,138</u>	<u>7,648,176</u>	<u>15,142,962</u>
Total equity		<u>104,620,711</u>	<u>91,777,300</u>	<u>12,843,411</u>

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 24. Comparison to prospective financial statements continued

Statement of Profit or Loss and Other Comprehensive Income

		2022 Actual	Prospective	Variation
	Note	\$	\$	\$
Revenue	4	13,721,126	12,579,726	1,141,400
Expenses				
Property operating expenses	5	2,747,425	2,565,980	181,445
Property and Fund management fees		1,109,924	1,007,057	102,867
Property and Fund Management performance fee		696,414	-	696,414
Supervisor fees		60,173	20,000	40,173
Administrative	5	287,764	221,796	65,968
		4,901,700	3,814,833	1,086,867
Operating profit		8,819,426	8,764,893	54,533
Net Finance expenses	5	3,631,478	2,641,006	990,472
Other Income and expenses				
Dividends Received		787	-	787
Net fair value gain on investment properties	9	4,128,211	-	4,128,211
Net loss on disposal of investment property	9	(477,258)	-	(477,258)
Fair value movement on derivative financial instruments		1,928,909	-	1,928,909
Net profit		<u>10,768,597</u>	<u>6,123,887</u>	<u>4,644,710</u>
Other Comprehensive Income		-	-	-
Total comprehensive income		<u>10,768,597</u>	<u>6,123,887</u>	<u>4,644,710</u>

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 24. Comparison to prospective financial statements continued

Statement of Changes in Equity

	Issued Units	Retained earnings	Total equity
2022	\$	\$	\$
Balance at 1 April 2021	81,829,573	17,661,291	99,490,864
Net profit for the year and total comprehensive income		10,768,597	10,768,597
Distributions to investors (note 15)		(5,638,750)	(5,638,750)
Balance at 31 March 2022	<u>81,829,573</u>	<u>22,791,138</u>	<u>104,620,711</u>

	Issued Units	Retained earnings	Total equity
Prospective 2022	\$	\$	\$
Opening Equity	84,129,124	7,564,289	91,693,413
Net profit for the year and total comprehensive income	-	6,123,887	6,123,887
Distributions to investors (note 15)	-	(6,040,000)	(6,040,000)
Balance at 31 March 2022	<u>84,129,124</u>	<u>7,648,176</u>	<u>91,777,300</u>

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2022

Note 24. Comparison to prospective financial statements continued

Statement of Cash Flows

	Note	2022 \$	Prospective \$	Variation \$
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		14,081,793	12,678,048	1,403,745
Dividend Income		787	-	787
Interest income		-	-	-
Cash was applied to:				
Payments to suppliers		(5,779,711)	(4,080,327)	(1,699,384)
Interest and other finance costs paid		(3,653,013)	(2,319,224)	(1,333,789)
GST received/(paid)		(72,615)	19,864	(92,479)
Net cash inflow/(outflow) from operating activities	22	4,577,241	6,298,361	(1,721,120)
Cash flows from investing activities				
Cash was provided from:				
Sale of investment properties		13,353,674	-	13,353,674
Cash was applied to:				
Purchase of investment property and capital expenditure		(3,000,601)	(1,674,665)	(1,325,936)
Net cash inflow/(outflow) from investing activities		10,353,073	(1,674,665)	12,027,738
Cash flows from financing activities				
Cash was provided from:				
Proceeds from issue of share capital		-	-	-
Proceeds from borrowings		-	1,300,000	(1,300,000)
Cash was applied to:				
Repayment of borrowings		(9,570,000)	-	(9,570,000)
Distributions to investors	15	(5,645,250)	(5,970,000)	324,750
Net cash inflow/(outflow) from financing activities		(15,215,250)	(4,670,000)	(10,545,250)
Net increase in cash and cash equivalents		(284,936)	(46,304)	(238,632)
Cash and cash equivalents at the start of the financial period		486,334	224,790	261,544
Cash and cash equivalents at the end of the financial period	6	201,398	178,486	22,912

