

# **PMG Direct Office Fund**

## **Financial Statements**

For the year ended 31 March 2019

**PMG Direct Office Fund**  
Directory  
For the year ended 31 March 2019

Scheme number	SCH10921
Registration date	1 November 2016
Manager	PMG Property Funds Management Limited PO Box 2034 Tauranga 3140
Directors of the Manager	Daniel Lem Nigel Lowe Scott McKenzie Denis McMahon Wayne Beilby
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	Crowe Horwath New Zealand Audit Partnership 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

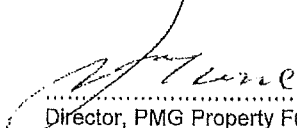
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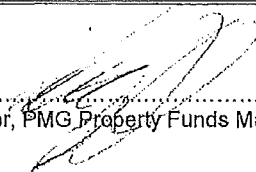
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PMG Direct Office Fund  
Statement of Financial Position  
As at 31 March 2019

		2019	2018
	Note	\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	-	109,139
Trade and other receivables	7	204,569	76,311
Other current assets	8	404,837	175,955
<b>Total current assets</b>		<u>609,406</u>	<u>361,405</u>
<b>Non-current assets</b>			
Investment properties	9	50,904,393	47,878,461
<b>Total non-current assets</b>		<u>50,904,393</u>	<u>47,878,461</u>
<b>Total assets</b>		<u>51,513,799</u>	<u>48,239,866</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings - bank overdraft	6	117,412	-
Trade and other payables	10	858,061	313,158
PIE Tax Payable	10	4,263	30,253
Derivative financial instruments	11	442,484	84,622
Distributions payable	15	175,000	175,000
Other current liabilities	12	166,266	469,343
<b>Total current liabilities</b>		<u>1,763,486</u>	<u>1,072,376</u>
<b>Non-current liabilities</b>			
Borrowings	13	18,480,402	16,307,402
<b>Total non-current liabilities</b>		<u>18,480,402</u>	<u>16,307,402</u>
<b>Total liabilities</b>		<u>20,243,888</u>	<u>17,379,778</u>
<b>Net assets</b>		<u>31,269,911</u>	<u>30,860,088</u>
<b>Equity</b>			
Issued units	14	26,868,055	27,088,989
Retained earnings		4,401,856	3,771,099
<b>Total equity</b>		<u>31,269,911</u>	<u>30,860,088</u>

  
.....  
Director, PMG Property Funds Management Limited

  
.....  
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 2019**

		2019	2018
	Note	\$	\$
<b>Revenue</b>	4	4,504,301	4,309,777
<b>Expenses</b>			
Property operating expenses	5	(1,281,685)	(1,068,303)
Property and Fund management fees		(354,258)	(322,888)
Property and Fund Management performance fee		(18,591)	(397,273)
Supervisor fees		(21,614)	(20,170)
Administrative	5	<u>(159,565)</u>	<u>(167,728)</u>
<b>Operating profit</b>		2,668,588	2,333,415
<b>Net Finance expenses</b>	5	(1,061,807)	(864,208)
Dividends Received		5,216	6,309
Net fair value gain on investment properties	9	1,747,801	2,711,281
Net loss on disposal of investment property	9	(271,180)	(165,416)
Fair value movement on derivative financial instruments		(357,861)	(25,536)
<b>Net profit</b>		<u>2,730,757</u>	<u>3,995,845</u>
<b>Other Comprehensive Income</b>		-	-
<b>Total comprehensive income</b>		<u>2,730,757</u>	<u>3,995,845</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 2019

	Issued Units	Retained earnings	Total equity
2019	\$	\$	\$
Balance at 1 April 2018	27,088,989	3,771,099	30,860,088
Net profit for the year and total comprehensive income		2,730,757	2,730,757
Transactions with investors in their capacity as investors:			
Issue costs	(220,934)	-	(220,934)
Distributions to investors (note 15)	-	(2,100,000)	(2,100,000)
<b>Balance at 31 March 2019</b>	<u>26,868,055</u>	<u>4,401,856</u>	<u>31,269,911</u>
	Issued Units	Retained earnings	Total equity
2018	\$	\$	\$
Balance at 1 April 2017	27,088,989	1,875,254	28,964,243
Net profit for the year and total comprehensive income		3,995,845	3,995,845
Transactions with investors in their capacity as investors:			
Distributions to investors (note 15)	-	(2,100,000)	(2,100,000)
<b>Balance at 31 March 2018</b>	<u>27,088,989</u>	<u>3,771,099</u>	<u>30,860,088</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 2019**

	Note	2019 \$	2018 \$
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Receipts from customers		4,257,752	4,263,748
Dividend Income		5,216	-
Interest income		4,321	552
Cash was applied to:			
Payments to suppliers		(1,976,026)	(1,673,952)
Interest and other finance costs paid		(1,095,935)	(864,760)
GST received/(paid)		(31,374)	69,220
Net cash inflow/(outflow) from operating activities	22	<u>1,163,954</u>	<u>1,794,808</u>
<b>Cash flows from investing activities</b>			
Cash was provided from:			
Sale of Investment properties		12,600,076	3,875,000
Cash was applied to:			
Purchase of Investment property and capital expenditure		<u>(13,842,647)</u>	<u>(1,382,596)</u>
Net cash inflow/(outflow) from investing activities		<u>(1,242,571)</u>	<u>2,492,404</u>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Proceeds from borrowings		2,173,000	-
Cash was applied to:			
Term Loan repaid		-	(2,235,000)
Unit Issue transaction costs		(220,934)	-
Distributions to Investors	15	<u>(2,100,000)</u>	<u>(2,088,333)</u>
Net cash inflow/(outflow) from financing activities		<u>(147,934)</u>	<u>(4,323,333)</u>
Net increase in cash and cash equivalents		(226,551)	(36,121)
Cash and cash equivalents at the start of the financial period		<u>109,139</u>	<u>145,260</u>
Cash and cash equivalents at the end of the financial period	6	<u>(117,412)</u>	<u>109,139</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 2019**

**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](http://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 21 June 2019.

As required by FRS-42 – Prospective Financial Statements, the prospective financial information provided in the Product Disclosure Statement of the Fund, issued 11 March 2019, 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 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 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 amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.



**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2019**

**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/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 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.

**Dividend Income**

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



**PMG Direct Office Fund**  
Notes to the Financial Statements  
For the year ended 31 March 2019

**Note 1. Significant accounting policies (continued)**

**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.

**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.



**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2019**

**Note 1. Significant accounting policies (continued)**

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***

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.



**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2019**

**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.

**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.



**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2019**

**Note 1. Significant accounting policies (continued)**

**Property Project Fees 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 this 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 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 year's presentation.



**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2019**

**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 year ended 31 March 2019 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.



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**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 year ended 31 March 2018. 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.

	2019 \$	2018 \$
<i>Sales revenue</i>		
Rent from Investment properties	3,682,476	3,580,965
Operating expense recoveries – NZ IAS 17 Leases	541,695	500,752
Operating expenses recoveries – NZ IFRS 15 Revenue from contracts for customers	280,130	228,060
	<u>4,504,301</u>	<u>4,309,777</u>

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.

**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**  
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**Note 5. Specific expenses**

	2019 \$	2018 \$
Net profit before tax includes the following specific expenses:		
<i>Property operating expenses</i>		
Expenses on investment property that generated rental income	1,281,685	1,068,303
<i>Administrative</i>		
Auditors remuneration – financial statements audit & assurance services	16,547	24,000
Accountants remuneration	16,625	8,077
Consultancy & Legal fees	75,355	61,824
Valuation fees	15,550	42,180
Other Administration costs	35,488	31,647
	<u>159,565</u>	<u>167,728</u>
<i>Net finance expenses</i>		
Interest and finance charges paid/payable	1,066,128	864,760
Interest revenue	(4,321)	(552)
	<u>1,061,807</u>	<u>864,208</u>

**Note 6. Cash and cash equivalents**

	2019 \$	2018 \$
Cash at bank/(overdraft) – ASB Bank Limited	<u>(117,412)</u>	<u>109,139</u>
	<u>(117,412)</u>	<u>109,139</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 Pooors.

**Note 7. Trade and other receivables**

	2019 \$	2018 \$
Trade receivables	<u>132,315</u>	<u>48,194</u>
	<u>132,315</u>	<u>48,194</u>
GST receivable	49,567	18,193
Other receivables	<u>22,687</u>	<u>9,924</u>
	<u>204,569</u>	<u>76,311</u>

*Impairment of receivables*

The Fund has recognised no amount in profit or loss in respect of impairment of receivables for the year ended 31 March 2019 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 31 March 2019 or 31 March 2018.

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 2019 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.



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**Note 8. Other current assets**

	2019 \$	2018 \$
Lease Inducements	222,527	72,862
Prepayments	56,970	11,520
Deferred Commission	125,340	91,573
	<u>404,837</u>	<u>175,955</u>

**Note 9. Investment properties**

	2019 \$	2018 \$
Investment properties - at Independent valuation	<u>51,252,260</u>	<u>47,878,461</u>

*Reconciliation*

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

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	1,868,974	1,382,596
Investment Property sold during the year	(12,600,076)	(3,875,000)
Revaluation Increments	2,095,668	2,711,281
Loss on sale of Investment Property	(271,180)	(165,416)
	<u>51,252,260</u>	<u>47,878,461</u>
Investment properties at independent valuation	51,252,260	47,878,461
Less Lease inducements included in current assets	(222,527)	-
Less Deferred Commission included in current assets	(125,340)	-
Investment Property at fair value	<u>50,904,393</u>	<u>47,878,461</u>

*Acquisition of investment properties*

In the 2019 year 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 year ended 31 March 2019 the Fund sold three investment properties, 117 Willow Street, Tauranga, 1214 Ranolf Street, Rotorua and 22 Amersham Way, Auckland. 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.

In the year ended 31 March 2019 Lease Inducements and Deferred Commission have been taken off the Independent Valuation amounts and the net fair value gains on the Investment Properties as these amounts are indirectly included in the valuation calculations but are also separately showing in the financial statements as Current Assets.

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.



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Note 9. Investment Properties (continued)

Summary of investment properties held at 31 March 2019:

Property	Fair value at 31 March 2018 \$	Capital cost during period \$	Purchase Price/ (Sale Value) \$	Fair valuation movement \$	Valuation amount at 31 March 2019 \$
5 Short Street, Newmarket, Auckland	17,800,000	358,476	-	(8,476)	18,150,000
2 Robert Street, Ellerslie, Auckland	9,500,000	381,675	-	593,325	10,475,000
22 Amersham Way, Manukau, Auckland	7,700,000	7,510	(7,596,958)	(110,552)	-
143 Durham Street, Tauranga	5,650,000	561,338	-	688,662	6,900,000
127 Durham Street, Tauranga	2,500,000	15,146	-	759,854	3,275,000
117 Willow Street, Tauranga	2,928,461	435,285	(3,223,641)	(140,105)	-
1214 Ranolf Street, Rotorua	1,800,000	-	(1,779,477)	(20,523)	-
8 Rockridge Avenue, Auckland	-	107,284	12,280,413	62,303	12,450,000
410 Victoria Street/12 Alma Street, Hamilton	-	2,260	-	-	2,260
<b>Total Investment Property</b>	<b>47,878,461</b>	<b>1,868,974</b>	<b>(319,663)</b>	<b>1,824,488</b>	<b>51,252,260</b>

Summary of investment properties fair value at 31 March 2019:

Property	Valuation amount at 31 March 2019 \$	Less Lease Inducements \$	Less Deferred Commission \$	Fair Value at 31 March 2019 \$
5 Short Street, Newmarket, Auckland	18,150,000	(113,109)	(39,621)	17,997,270
2 Robert Street, Ellerslie, Auckland	10,475,000	(100,186)	(50,649)	10,324,165
143 Durham Street, Tauranga	6,900,000	(9,232)	(7,070)	6,883,698
127 Durham Street, Tauranga	3,275,000	-	-	3,275,000
8 Rockridge Avenue, Auckland	12,450,000	-	(28,000)	12,422,000
410 Victoria Street/ 12 Alma Street, Hamilton	2,260	-	-	2,260
<b>Total Investment Property</b>	<b>51,252,260</b>	<b>(222,527)</b>	<b>(125,340)</b>	<b>50,904,393</b>

Key valuation considerations:

Property	Valuer	Net market income \$	Yield on net market income	Residual lease term
5 Short Street, Newmarket, Auckland	Aim Valuation Limited	1,306,586	7.200%	2.32 years
2 Robert Street, Ellerslie, Auckland	Aim Valuation Limited	813,234	7.760%	4.38 years
143 Durham Street, Tauranga	Preston Rowe Paterson	458,157	6.640%	2.59 years
127 Durham Street, Tauranga	Preston Rowe Paterson	220,585	6.000%	5.00 years
8 Rockridge Avenue, Auckland	Aim Valuation Limited	977,270	7.850%	2.92 years



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Note 9. Investment Properties (continued)

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	16,160,000	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	1,726,000	12,379	-	62,621	1,800,000
52 Lovegrove Crescent, Otara, Auckland	3,975,000	65,416	(3,875,000)	(165,416)	-
<b>Total Investment Property</b>	<b>47,825,000</b>	<b>1,382,596</b>	<b>(3,875,000)</b>	<b>2,545,865</b>	<b>47,878,461</b>

Key valuation considerations:

Property	Valuer	Net market income \$	Yield on net market income	Residual lease term
5 Short Street, Newmarket, Auckland	Alm 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

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 \$60,904,393 at 31 March 2019 (2018: \$47,878,461).

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



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Note 9. Investment Properties (continued)

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

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

	2019 Investment Properties \$	2018 Investment Properties \$
Opening Balance	47,878,461	47,825,000
Addition of Investment Property at cost	12,280,413	-
Capital Additions to Investment Property at cost	1,868,974	1,382,596
Sale of Investment Property	(12,600,076)	(3,875,000)
Loss on sale of investment property	(271,180)	(165,416)
Gains on Investment property recognised in profit or loss	2,095,668	2,711,281
Valuation at 31 March	51,252,260	47,878,461
Less Lease Inducements	(222,527)	-
Less Deferred Commission	(125,340)	-
	<u>50,904,393</u>	<u>47,878,461</u>

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

Description	Unobservable Inputs	2019 Range (weighted average)	2018 Range (weighted average)
Investment properties	Rental yield	6.0% to 8.0% (6.86%)	7% to 8.5% (7.8%)
	Rental growth	1.5% to 2.25% (1.88%)	1.25% to 1.75% (1.50%)
	Market capitalisation rate	6.0% to 7.5% (6.78%)	6.9% to 7.9% (7.44%)
	Discount rate	6.50% to 9.1% (7.85%)	7.75% to 9.5% (8.53%)



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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 \$509,044 (2018: \$478,785).

Note 10. Trade and other payables

	2019 \$	2018 \$
Trade payables	858,061	313,158
PIE Tax payable	4,263	30,253
	<u>862,324</u>	<u>343,411</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 the profit and loss in the form of interest rate swaps to reduce interest rate risk. At 31 March 2019, interest rate swaps had a notional value of \$24,000,000. Fair value has been determined by ASB Bank Limited.

	2019 \$	2018 \$
Interest rate swaps – ASB Bank Limited	<u>442,484</u>	<u>84,622</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 2019

Details	Maturity date	Notional value	Fixed interest rate	Fair value \$
Interest rate swap 1	14 December 2021	8,000,000	2.3100%	(134,237)
Interest rate swap 2	16 August 2021	3,000,000	2.5100%	(59,046)
Interest rate swap 3	15 August 2022	3,000,000	2.6600%	(94,816)
Interest rate swap 4	14 December 2020	4,000,000	2.4900%	(54,960)
Interest rate swap 5	14 April 2023	6,000,000	2.1700%	(99,425)
		<u>24,000,000</u>		<u>(442,484)</u>

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)
		<u>12,000,000</u>		<u>(84,622)</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.



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Note 12. Other current liabilities

	2019 \$	2018 \$
Accrued expenses	48,399	412,842
Income received in advance	117,867	56,501
	<u>166,266</u>	<u>469,343</u>

Note 13. Borrowings

	2019 \$	2018 \$
Bank loans	18,480,402	16,307,402
	<u>18,480,402</u>	<u>16,307,402</u>

*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:

	2019 \$	2018 \$
Total facilities		
Bank overdraft	250,000	-
Bank loans	18,480,402	17,981,000
	<u>18,730,402</u>	<u>17,981,000</u>
Used at the reporting date		
Bank overdraft	117,412	-
Bank loans	18,480,402	16,307,402
	<u>18,597,814</u>	<u>16,307,402</u>

Note 14. Issued units

	2019 Units	2018 Units	2019 \$	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)
Unit issue transaction costs, net of tax	31 March 2019	-	\$0.00	(220,934)
Balance	31 March 2019	<u>28,000,000</u>		<u>26,868,055</u>

The unit issue costs to 31 March 2019 are in relation to the raise of 18,000,000 units on the 17<sup>th</sup> of April 2019

*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.



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**Note 15. Issued units (continued)**

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.



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Note 15. Distributions

*Distributions*

In the year ending 31 March 2019 a distribution was paid on the 25<sup>th</sup> of each month for 0.625 cents per unit totalling \$175,000 per month. On 31 March 2019 the Directors of the Manager declared a final distribution for the period ended 31 March 2019 of 0.625 cents per unit which was paid on 25 April 2019, a total distribution of \$175,000 based on the number of units on issue as at 31 March 2019. 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:

	2019
	\$
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
Distribution paid for period ended 31 October 2018 0.625 cents per unit	175,000
Distribution paid for period ended 30 November 2018 0.625 cents per unit	175,000
Distribution paid for period ended 31 December 2018 0.625 cents per unit	175,000
Distribution paid for period ended 31 January 2019 0.625 cents per unit	175,000
Distribution paid for period ended 28 February 2019 0.625 cents per unit	175,000
Distribution paid for period ended 31 March 2019 0.625 cents per unit	175,000
	<u>2,100,000</u>

Distributions paid in this financial year were as follows:

	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
	<u>2,100,000</u>

On 31 March 2018 the Directors of the Manager declared a final distribution for the period ended 31 March 2018 of 0.625 cents per unit which was paid on 25 April 2018, a total distribution of \$175,000 based on the number of units on issue as at 31 March 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.

*PIE tax deducted at source*

During the financial period, the Fund deducted \$101,639 from distributions made to investors. \$4,263 remains payable at 31 March 2019 and is shown in the statement of financial position. (During the 2018 financial period, 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).



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**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 ('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 \$18,480,402, are interest-only payment loans. Monthly cash outlays of approximately \$66,807 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 \$4,804 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.



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2019

Note 16. Financial instruments (continued)

*Liquidity risk continued*

*Financing arrangements*

Unused borrowing facilities at the reporting date:

	2019	2018
	\$	\$
Bank overdraft	132,588	-
Bank loans	-	1,673,598
	<u>132,588</u>	<u>1,673,598</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.

2019	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total \$
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-%	858,061	-	-	-	858,061
Other payables	-%	166,266	-	-	-	166,266
Distributions payable	-%	175,000	-	-	-	175,000
PIE Tax Payable	-%	4,263	-	-	-	4,263
<i>Interest-bearing - floating rate</i>						
Bank overdraft		117,412	-	-	-	117,412
Bank loans	4.21%	780,569	780,569	19,111,092	-	20,672,230
Total non-derivatives		<u>2,101,571</u>	<u>780,569</u>	<u>19,111,092</u>	<u>-</u>	<u>21,993,232</u>
<b>Derivatives</b>						
Interest Rate Swaps	2.17-2.66%	123,300	115,848	103,685	-	342,733
Total derivatives		<u>123,300</u>	<u>115,848</u>	<u>103,685</u>	<u>-</u>	<u>342,733</u>
2018	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total \$
<b>Non-derivatives</b>						
<i>Non-Interest bearing</i>						
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
<i>Interest-bearing - floating rate</i>						
Bank loans	4.19%	683,280	683,280	16,791,392	-	18,157,952
Total non-derivatives		<u>1,671,034</u>	<u>683,280</u>	<u>16,791,392</u>	<u>-</u>	<u>19,145,706</u>
<b>Derivatives</b>						
Interest Rate Swaps	2.49-2.72%	85,300	50,250	-	-	135,550
Total derivatives		<u>85,300</u>	<u>50,250</u>	<u>-</u>	<u>-</u>	<u>135,550</u>



**PMG Direct Office Fund**  
**Notes to the financial statements**  
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**Note 16. 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 31 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.

At 31 March 2019 it is estimated that a general increase of 1% in interest rates would have decreased the Funds profit before income tax of \$4,804 (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**

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 \$442,484 (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.

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).

<b>Classification and fair values</b>	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
<b>31 March 2019</b>				
<b>Financial Liabilities Designated at fair value</b>				
Derivative Financial Instruments	442,484	0	442,484	0
<b>Total Financial Liabilities</b>	<b>442,484</b>	<b>0</b>	<b>442,484</b>	<b>0</b>
	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
<b>31 March 2018</b>				
<b>Financial Liabilities Designated at fair value</b>				
Derivative Financial Instruments	84,622	0	84,622	0
<b>Total Financial Liabilities</b>	<b>84,622</b>	<b>0</b>	<b>84,622</b>	<b>0</b>



**PMG Direct Office Fund**  
**Notes to the financial statements**  
**For the year ended 31 March 2019**

**Note 17. Contingent liabilities**

At Balance Date the Fund had a Contingent Liability to pay PMG Property Funds Management Limited an underwriting fee of \$453,600. This was a fee for PMG Property Funds Management Limited underwriting 13,500,000 units in the equity raise on the 17<sup>th</sup> of April 2019. The underwriting fee is due for payment on the 17<sup>th</sup> of April 2019.

**Note 18. Commitments**

	2019	2018
	\$	\$
<b>Capital commitments</b>		
Committed at the reporting date but not recognised as liabilities:		
Investment properties	<u>29,843,000</u>	<u>12,300,000</u>

The Capital Expenditure Commitments at 31 March 2019 relate to the purchase price of 65B Main Highway, Auckland of \$21,743,000 and the purchase price of 410 Victoria Street/12 Alma Street, Hamilton of \$8,100,000 which the Fund had committed to purchase in April 2019.

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 \$150,000.

**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:*

	2019	2018
	\$	\$
<b>Payment for goods and services:</b>		
Payment of Property Fund and management fees to the Manager	354,258	322,888
Payment of Project Management fees to the Manager	79,190	52,367
Payment of Performance fees to the Manager	18,591	397,273
Payment of Commission to the Manager for the sale or acquisition of property	249,500	38,750
Payment of Supervisor fees to the Supervisor	21,614	20,170
Payment of services to Forsite Limited (Manager-related entity, Scott McKenzie is a Director of the Manager)	7,800	920
<b>Income was received by the Fund for</b>		
Rent paid by the Manager for office in 5 Short Street, Newmarket	62,177	34,327
<b>Investments in the Fund:</b>		
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	14,997	14,997
Units held by PMG Property Funds Management Limited (Manager)	-	100,000
Distributions made to the Manager	937	3,177

*Receivable from and payable to related parties*

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

	2019	2018
	\$	\$
<b>Current payables:</b>		
Trade payables to the Manager	208,610	80,286
Performance Fee payable to the Manager	18,591	403,286
Trade payables to the Supervisor	10,925	5,754
Distribution payable to Denis McMahon Family Trust	1,250	1,250



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2019

**Note 19. Related party transactions (continued)**

*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. Lessor Operating Lease**

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

	2019	2018
	\$	\$
Not later than one year	3,304,639	2,790,017
Later than one year and not later than five years	7,294,209	5,011,162
Later than five years	1,152,031	673,814
Total Lease payments receivable	<u>11,750,879</u>	<u>8,474,993</u>

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

**Note 21. Events after the reporting period**

On the 17<sup>th</sup> of April 2019 the Fund completed an Equity raise of 18,000,000 units at \$1.12 (\$20,160,000). This raise was to acquire 65B Main Highway, Auckland and 410 Victoria Street/12 Alma Street Hamilton.

Additional Bank Funding of \$16,793,000 was arranged as part of these acquisitions and was drawn to \$12,500,000 on settlement.

**Note 22. Reconciliation of profit after income tax to net cash from operating activities**

	2019	2018
	\$	\$
Profit after income tax expense for the year	2,730,757	3,995,845
Adjustments for non cash items:		
Net fair value movement on investment properties	(1,747,801)	(2,711,281)
Net fair value movement on derivative financial instruments	357,861	25,536
Adjustments for items classified as investing activities:		
Loss on sale of investment property	271,180	165,416
<b>Change in operating assets and liabilities:</b>		
Increase in trade and other receivables	(96,884)	(39,592)
Increase in prepayments	(45,450)	(507)
Increase in trade and other payables	212,288	137,678
(Decrease)/Increase in accrued expenses	(364,557)	260,427
Increase in lease inducements	(149,665)	(72,862)
Increase in deferred expenses	(33,767)	(91,573)
Increase in income received in advance	61,366	56,501
(Increase)/Decrease in GST receivable	(31,374)	69,220
<b>Net cash inflow/(outflow) from operating activities</b>	<u>1,163,954</u>	<u>1,794,808</u>



**PMG Direct Office Fund**  
**Notes to the financial statements**  
**For the year ended 31 March 2019**

**Note 23. Comparison to prospective financial statements**

A comparison to the prospective financial statements, as issued in the Product Disclosure Statement (PDS) issued 11 March 2019, 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**

- Borrowings were less due to more cash being used and more accounts payable at balance date than projected.
- Derivative Financial Instruments were higher than projected due to decreased interest rates and new swaps being taken out in February 2019.

**Statement of Profit or Loss and Other Comprehensive Income**

- The Manager is entitled to a performance fee based on performance of the Fund. The Prospective Financial Statements had no performance fee payable in them.
- Increased fair value gain on investment properties
- Increased fair value movement on derivative financial instruments
- Administration costs were less than forecast.

**Statement of Cash Flows**

- Decreased payments to suppliers
- Decreased borrowings
- Increased unit issue transaction costs due to timing of raise



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2019

Note 23. Comparison to prospective financial statements continued

Statement of Financial Position

		2019		
	Note	Actual \$	Prospective	Variation
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	-	570,193	(570,193)
Trade and other receivables	7	204,569	82,478	122,091
Other current assets	8	404,837	425,014	(20,177)
<b>Total current assets</b>		<u>609,406</u>	<u>1,077,685</u>	<u>(468,279)</u>
<b>Non-current assets</b>				
Investment properties	9	50,904,393	51,000,000	(95,607)
<b>Total non-current assets</b>		<u>50,904,393</u>	<u>51,000,000</u>	<u>(95,607)</u>
<b>Total assets</b>		<u>51,513,799</u>	<u>52,077,685</u>	<u>(563,886)</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings - bank overdraft	6	117,412	-	117,412
Trade and other payables	10	858,061	303,637	554,424
PIE Tax Payable	10	4,263	-	4,263
Derivative financial instruments	11	442,484	175,352	267,132
Distributions payable	15	175,000	175,000	-
Other current liabilities	12	166,266	68,100	98,166
<b>Total current liabilities</b>		<u>1,763,486</u>	<u>722,089</u>	<u>1,041,397</u>
<b>Non-current liabilities</b>				
Borrowings	13	18,480,402	19,872,402	(1,392,000)
<b>Total non-current liabilities</b>		<u>18,480,402</u>	<u>19,872,402</u>	<u>(1,392,000)</u>
<b>Total liabilities</b>		<u>20,243,888</u>	<u>20,594,491</u>	<u>(350,603)</u>
<b>Net assets</b>		<u>31,269,911</u>	<u>31,483,194</u>	<u>(213,283)</u>
<b>Equity</b>				
Issued units	14	26,868,055	27,088,540	(220,485)
Retained earnings		4,401,856	4,394,654	7,202
<b>Total equity</b>		<u>31,269,911</u>	<u>31,483,194</u>	<u>(213,283)</u>



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2019

Note 23. Comparison to prospective financial statements continued

Statement of Profit or Loss and Other Comprehensive Income				
2019				
	Note	Actual \$	Prospective \$	Variation \$
Revenue	4	4,504,301	4,474,669	29,632
<b>Expenses</b>				
Property operating expenses	5	(1,281,685)	(1,255,861)	(25,824)
Property and Fund management fees		(354,258)	(353,148)	(1,110)
Property and Fund Management performance fee		(18,591)	-	(18,591)
Supervisor fees		(21,614)	-	(21,614)
Administrative	5	(159,565)	(271,239)	111,674
<b>Operating profit</b>		<b>2,668,588</b>	<b>2,594,421</b>	<b>74,167</b>
Net Finance expenses	5	(1,061,807)	(1,040,030)	(21,777)
Dividends Received		5,216	5,215	1
Net fair value gain on investment properties	9	1,747,801	1,415,305	332,496
Net loss on disposal of investment property	9	(271,180)	(160,627)	(110,553)
Fair value movement on derivative financial instruments		(357,861)	(90,729)	(267,132)
<b>Net profit</b>		<b>2,730,757</b>	<b>2,723,555</b>	<b>7,202</b>
Other Comprehensive Income		-	-	-
<b>Total comprehensive income</b>		<b>2,730,757</b>	<b>2,723,555</b>	<b>7,202</b>



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2019

Note 23. Comparison to prospective financial statements continued

Statement of Changes in Equity			
	Issued Units	Retained earnings	Total equity
2019	\$	\$	\$
Balance at 1 April 2018	27,088,989	3,771,099	30,860,088
Net profit for the year and total comprehensive income		2,730,757	2,730,757
Transactions with investors in their capacity as investors:			
Issue costs	(220,934)	-	(220,934)
Distributions to Investors (note 15)	-	(2,100,000)	(2,100,000)
<b>Balance at 31 March 2019</b>	<b>26,868,055</b>	<b>4,401,856</b>	<b>31,269,911</b>
	Issued Units	Retained earnings	Total equity
2018	\$	\$	\$
Balance at 1 April 2017	27,088,989	1,875,254	28,964,243
Net profit for the year and total comprehensive income		3,995,845	3,995,845
Transactions with investors in their capacity as investors:			
Distributions to investors (note 15)	-	(2,100,000)	(2,100,000)
<b>Balance at 31 March 2018</b>	<b>27,088,989</b>	<b>3,771,099</b>	<b>30,860,088</b>
	Issued Units	Retained earnings	Total equity
Prospective 2019	\$	\$	\$
Opening Equity	27,088,989	3,771,099	30,860,088
Net profit for the year and total comprehensive income	-	2,723,555	2,723,555
Transactions with investors in their capacity as investors:			
Issue costs	(449)	-	(449)
Distributions to investors (note 15)	-	(2,100,000)	(2,100,000)
<b>Balance at 31 March 2019</b>	<b>27,088,540</b>	<b>4,394,654</b>	<b>31,483,194</b>



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2019

Note 23. Comparison to prospective financial statements continued

Statement of Cash Flows

	Note	2019 \$	Prospective \$	Variation \$
<b>Cash flows from operating activities</b>				
Cash was provided from:				
Receipts from customers		4,257,752	4,300,643	(42,891)
Dividend Income		5,216	5,215	1
Interest income		4,321	-	4,321
Cash was applied to:				
Payments to suppliers		(1,976,026)	(2,446,920)	470,894
Interest and other finance costs paid		(1,095,935)	(1,040,029)	(55,906)
GST received/(paid)		(31,374)	44,455	(75,829)
Net cash Inflow/(outflow) from operating activities	22	1,163,954	863,364	300,590
<b>Cash flows from investing activities</b>				
Cash was provided from:				
Sale of investment properties		12,600,076	12,295,118	304,958
Cash was applied to:				
Purchase of investment property and capital expenditure		(13,842,647)	(14,161,979)	319,332
Net cash Inflow/(outflow) from investing activities		(1,242,571)	(1,866,861)	624,290
<b>Cash flows from financing activities</b>				
Cash was provided from:				
Proceeds from borrowings		2,173,000	3,565,000	(1,392,000)
Cash was applied to:				
Term Loan repaid		-	-	-
Unit issue transaction costs		(220,934)	(449)	(220,485)
Distributions to investors	15	(2,100,000)	(2,100,000)	-
Net cash Inflow/(outflow) from financing activities		(147,934)	1,464,551	(1,612,485)
Net increase in cash and cash equivalents		(226,551)	461,054	(687,605)
Cash and cash equivalents at the start of the financial period		109,139	109,139	-
Cash and cash equivalents at the end of the financial period	6	(117,412)	570,193	(687,605)





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## INDEPENDENT AUDITOR'S REPORT

### To the Investors of PMG Direct Office Fund

#### Opinion

We have audited the financial statements of PMG Direct Office Fund (the Fund) on pages 3 to 33, which comprise the statement of financial position as at 31 March 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with *New Zealand equivalents to International Financial Reporting Standards* (NZ IFRS).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in the Fund.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Valuation and classification of investment properties – Note 9**

The Fund held a portfolio of investment properties valued at \$50,904,393 at 31 March 2019. The fair value was determined by the directors, taking into consideration:

- Comparable property values / market sales comparisons;
- Rental income streams / yield; and
- Discounted future income streams / cash flows.

The designation of properties as investment properties in accordance with NZ IAS 40 Investment Property required judgement.

Based on the significance of investment properties to the Fund's total assets, the possible significant impact of changes in fair value to the Fund's profit before tax, the designation of properties as investment properties and the valuation of investment properties requiring significant judgement and estimation, we have determined this matter to be a key audit matter.

Our procedures included, but were not limited to:

• Conducting discussions and challenging management regarding the criteria used to determine the classification of investment properties in accordance with NZ IAS 40 Investment Property;

• Reviewing evidence of management's intentions for the investment properties to ensure these were held for either long-term rental or capital appreciation or both, and were not owner-occupied, and

• Evaluating and challenging key estimates and assumptions adopted by the directors in determining the fair values of the investment properties by comparing values to recent sales of similar properties sold by the Fund, rental yields and comparable sales market data on similar properties, among others.

**Information other than the financial statements and auditor's report**

The Directors of the Fund's Manager, PMG Property Funds Management Limited are responsible for the other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditors' report, we concluded that there is a material misstatement of this other information, we are required to report that fact.

**Directors' Responsibilities for the Financial Statements**

The Directors of the Fund's Manager are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, the Directors of the Fund's Manager are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of the Fund's Manager either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors of the Fund's Manager and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors of the Fund's Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide the Directors of the Fund's Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Les Foy.

For and on behalf of:

A handwritten signature in cursive script that reads "Crowe Horwath".

**Crowe Horwath New Zealand Audit Partnership**

CHARTERED ACCOUNTANTS

24 June 2019