Property Managers Group

INVESTMENT MANAGEMENT BODY CORPORATE

2018 ANNUAL REPORT

PMG DIRECT OFFICE FUND

Creating value for people in property

CONTENTS

PMG's Core Values

Trusted

- We deliver on our promises.

Invested

- We demonstrate our belief in our strategies and skills by investing alongside our clients.

Transparent

- We will always act openly.

Property Managers Group
INVESTMENT MANAGEMENT BODY CORPORATE

PMG

Over the past 25 years PMG has launched 29 investment property offerings and four unlisted property funds, totalling $250 million. In addition, we are entrusted with the management of a large number of privately owned commercial properties and body corporates in the upper North Island.

Founded in Tauranga in 1992, we are one of the oldest and most established property and funds management businesses in NZ. Many of our investors have been with us from day one, and in one case we even have three generations of one family invested with us. We don't know of any other property or funds managers who can say that.

PMG's Vision

To be NZ's most trusted property funds managers

PMG's Purpose

To create value and security for people in property

PMG's Mission

Delivering better, together

Innovative

- We are always looking for a better way for our customers.

Professional

- We will raise the bar and set new standards.

Approachable

- Good personal relationships are the backbone of PMG.

DIRECTOR'S & CEO'S REPORT

Denis McMahon
Manager of PMG Direct Office Fund
Founding Director, Property Managers Group (PMG)

Denis has been working in, managing and investing in property for over 33 years. In 1992 he set up Property Managers Limited and was a pioneer in the commercial property industry, introducing investors to the innovative idea of property syndications, making commercial property ownership easier for his valued clients.

Scott McKenzie
Manager of PMG Direct Office Fund
CEO & Director, Property Managers Group (PMG)

Joining PMG as Group CEO in 2012, Scott brought with him extensive experience across the financial sector in NZ and the UK. His strategic and leadership skills have seen PMG grow both our team and funds under management (FUM), to a team of over 18 today and FUM in excess of $250m. Scott has been instrumental in adapting PMG's business model from one of stand-alone syndication to being one of the first licensed property and funds management investment scheme providers in the country.

Director's & CEO's Report

Dear valued investors,

I am pleased to report the annual results of our PMG Direct Office Fund (the Fund) for the year ended 31 March 2018. The Fund has performed well in its first full year since inception, seeing strong growth in revenue, profit and returns.

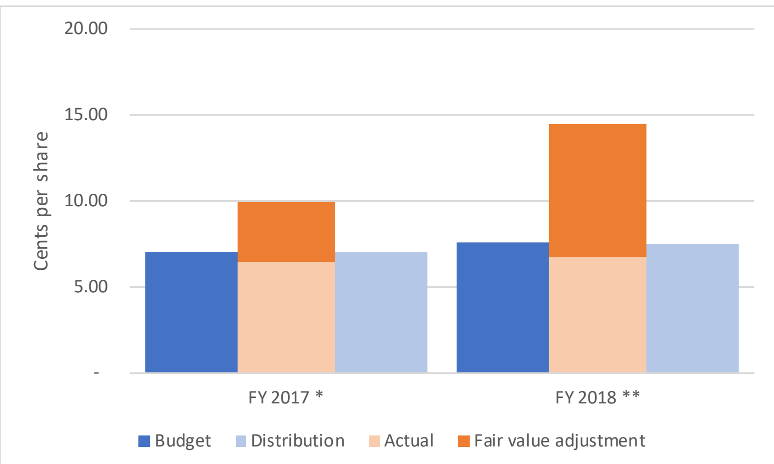
We are delighted to have delivered a gross distribution return for PMG DOF investors of 7.50 cents per unit (cpu) as forecasted.

PMG DOF's strategy is to invest in high-quality office properties, valued between $5m and $50m, and where it is believed Property Managers Group's (PMG) proactive management will re-lease unrealised valued.

To that end we're proud to say that our asset management team has done an outstanding job in securing new tenants for existing vacancy within the Fund's portfolio over the past 12 months, with 44 renewals and new leases completed. This includes 5 Short Street in Newmarket, Auckland which is now 100% leased, resulting in a significant $2.2m uplift in the value of the property.

Recycling capital into higher quality properties has also been a focus of the Fund. As a result, 117 Willow Street in Tauranga and 1214 Ranolf Street in Rotorua will settle in late June or early July. The sales of Willow and Ranolf Street have provided the opportunity for the Fund to acquire 8 Rockridge Avenue in Penrose, Auckland (Rockridge Property), from PMG's private equity Fund, PMG Capital Fund Limited, which will settle at the same time.

Return on Investment (after expenses but before tax)



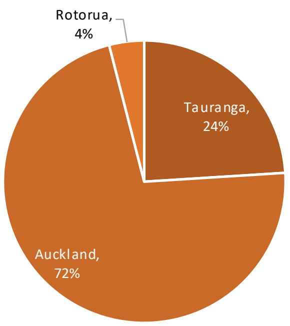
* Cash distribution annualised as only funded for a 3.75 month period
** Based on 31 March 2018 audited financial statements

These disposals and acquisition ensure ongoing cashflow, the minimising of risk exposure should economic conditions change, and provides the best opportunity for growth in value of the portfolio over time.

The key highlights for PMG DOF this year include:

- Delivering investors a gross distribution return of 7.50 cents per unit (cpu)
- Delivering growth in net tangible asset value by 7% to $1.10 per unit
- A total return of 14.5% (cash distribution return and increase in unit value)
- Net Profit Before Tax of $3.995 million
- A total of 44 leasing transactions (renewals and new leases) were completed resulting in an improvement in total occupancy to 90% and a weighted average lease term (WALT) of 3.07 years.
- Facilitating a total of $1.796 million of secondary share sales for the year

Geographic Breakdown



The outlook for PMG DOF looks strong, despite what some forecasters suggest are darkening economic headwinds on the horizon for the New Zealand economy under a backdrop of increasing global volatility. We are seeing a continual improvement in rental rates across largely the Auckland properties due to the ongoing repositioning of existing buildings and steady demand for quality office space across the fringe CBD market.

We believe our strategy to invest in high-quality office buildings which are geographically spread throughout the upper North Island, predominantly in Auckland, Tauranga and Hamilton is effectively delivering results and will continue to do so throughout FY19.

Key Metrics

$48m
Total portfolio value

7
Properties

3.07
Weighted average lease term (WALT)

56
Tenants

90%
Occupancy

15,136 sqm

15,136 m2
Nett lettable area

Our diversified portfolio, with a conservative bank gearing approach, ensures your investment is in safe hands – which is PMG's purpose in life; to create value and security for people in property.

Over the next financial year we are forecasting a gross distribution return of 7.50 cents per unit (cpu). This is below the forecast of 7.75 cpu noted within the Product Disclosure Statement (PDS) (dated 1 November 2016). This is due to leasing up assumptions not being met as quickly as originally forecast (however still being achieved), and a desire to ensure the portfolio remains robust, should a global economic shock be experienced.

The goal for the fund remains to grow the portfolio of quality office properties, over time, to a total value of around $250m and deliver sustainable cash distribution returns and growth in value.

Ongoing growth of the fund will provide further strength with scale, more reliable and consistent returns, and growth in value over time. Ongoing investment in PMG's sales and distribution networks continues to underpin a strengthening secondary market and therefore improved shareholder liquidity.

Our door is always open and we'd love the opportunity to meet with investors and hear your views on how we can best grow and protect your investments. Please feel free to contact us at any time on (07) 578 3494, or via email on scott@propertymgr.co.nz or denis@propertymgr.co.nz if you have any queries.

Yours sincerely,

Scott McKenzie
Manager of PMG Direct Office Fund
CEO & Director,
Property Managers Group (PMG)

Denis McMahon
Manager of PMG Direct Office Fund
Founding Director,
Property Managers Group (PMG)


WE'RE
INVESTED
WITH YOU
Property
Managers
Group
FORS!TE

HIGHLIGHTS & SUCCESSES

PMG DIRECT OFFICE FUND

- Delivering investors a gross distribution return of 7.50 cents per unit (cpu)
- Delivering growth in net tangible asset value of 7% to $1.10 per unit
- A total return of 14.5% (cash distribution return and increase in unit value)
- Net Profit Before Tax of $3.995m
- A total of 44 leasing transactions (renewals and new leases) were completed resulting in an improvement in total occupancy to 90% and a weighted average lease term (WALT) of 3.07 years.
- Facilitating a total of $1.796m of secondary share sales for the year

Property Managers Group

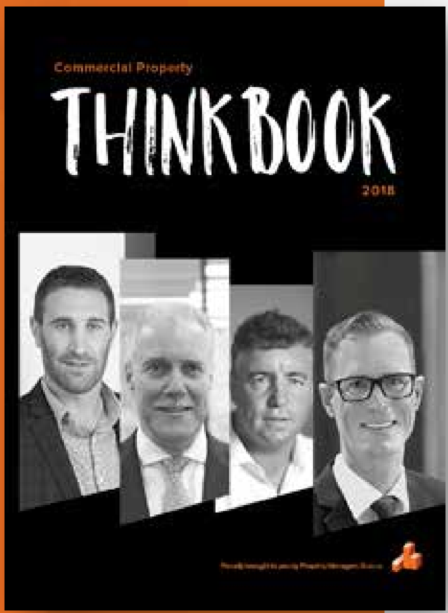
INVESTMENT MANAGEMENT BODY CORPORATE

WE TURNED 25

In October we turned 25! **Celebrating our 25 years in business** is a wonderful and humbling milestone. Huge congratulations to founder and chairman Denis McMahon, and those team members and investors who have been with us for many of those 25 years.

AWARD SUCCESS

We won the 2017 Business Innovation Award in the Westpac Tauranga Business Awards. This award demonstrates our innovative team culture, which is driving progress within our business and the industry.



PMG LAUNCHES THE THINKBOOK

PMG brought together some of the best economic, investment and property minds in the country and created the Commercial Property ThinkBook.

Drawing on expert opinion from Cameron Bagrie, founder of Bagrie Economics and former chief economist at ANZ, James Paterson, Head of Wealth at PIE Funds, Connal Townsend, CEO of NZ Property Council and PMG CEO, Scott McKenzie, the Thinkbook debates the economic and investment outlook for Kiwi investors over the next 12 to 18 months.

THE PORTFOLIO

PMG Direct Office Fund

Strategy

To target sound, well-located office properties in main metropolitan areas across the upper North Island which provide the opportunity to add value through leasing vacant space and/or proactive asset management.

Fund Goal

To grow, over time, a portfolio of quality office properties targeting total assets of $250m. Deliver sustainable cash distribution returns and growth in value over time.

PMG Direct Office Fund (the Fund) continues to meet the monthly investor cash distribution return of 7.50 cents per share (cps). The Fund saw an improvement in total occupancy over the quarter to now 90% and a weighted average lease term (WALT) of 3.07 years. The asset management team have completed a total of 44 leasing transactions (renewals and new leases) over the past 12 months. We are seeing a continual improvement in rental rates across largely the Auckland properties due to our continuing work around repositioning existing buildings and steady demand for quality office space across the fringe CBD market.

FINANCIALS & AUDIT REPORT

For the year ended 31 March 2018

PMG Direct Office Fund
Directory
For the year ended 31 March 2018

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

PMG Direct Office Fund
Contents
For the year ended 31 March 2018

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PMG Direct Office Fund
Statement of Financial Position
As at 31 March 2018

		2018	2017
			3 1/2 months
		Actual	Actual
	Note	$	$
Assets			
Current assets			
Cash and cash equivalents	6	109,139	145,260
Trade and other receivables	7	76,311	105,939
Other current assets	8	175,955	11,013
Total current assets		361,405	262,212
Non-current assets			
Investment properties	9	47,878,461	47,825,000
Total non-current assets		47,878,461	47,825,000
Total assets		48,239,866	48,087,212
Liabilities			
Current liabilities			
Trade and other payables	10	313,158	168,521
PIE Tax Payable	10	30,253	37,212
Derivative financial instruments	11	84,622	59,086
Distributions payable	15	175,000	163,333
Other current liabilities	12	469,343	152,415
Total current liabilities		1,072,376	580,567
Non-current liabilities			
Borrowings	13	16,307,402	18,542,402
Total non-current liabilities		16,307,402	18,542,402
Total liabilities		17,379,778	19,122,969
Net assets		30,860,088	28,964,243
Equity			
Issued units	14	27,088,989	27,088,989
Retained earnings		3,771,099	1,875,254
Total equity		30,860,088	28,964,243

Director, Property Managers Limited

Director, Property Managers Limited

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

PMG Direct Office Fund
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 March 2018

		2018	2017
			3 1/2 months
		Actual	Actual
	Note	$	$
Revenue	4	4,309,777	1,332,934
Expenses			
Property operating expenses	5	1,068,303	326,115
Property and Fund management fees		322,888	96,344
Property and Fund Management performance fee		397,273	89,182
Supervisor fees		20,170	5,924
Administrative	5	167,728	38,719
Operating profit		2,333,415	**776,650**
Net Finance expenses	5	864,208	244,064
Dividends Received		6,309	0
Net fair value gain on investment properties	9	2,711,281	1,981,323
Net loss on disposal of investment property	9	(165,416)	
Fair value movement on derivative financial instruments		(25,536)	(59,086)
Net profit		**3,995,845**	**2,454,823**
Other Comprehensive Income		-	-
Total comprehensive income		**3,995,845**	**2,454,823**

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 2018

	Note	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:						
Units issued during the year		-				-
Issue costs		-				-
Units redeemed during the year		-				-
Distributions to investors (note 15)				(2,100,000)		(2,100,000)
Balance at 31 March 2018		27,088,989		3,771,099		30,860,088

	Note	Issued Units		Retained earnings		Total equity
2017		$		$		$
Net profit for the year and total comprehensive income		-		2,454,823		2,454,823
Transactions with investors in their capacity as investors:						
Units issued during the year		28,000,000		-		28,000,000
Issue costs		(911,011)		-		(911,011)
Units redeemed during the year		-		-		-
Distributions to investors (note 15)				(579,569)		(579,569)
Balance at 31 March 2017		27,088,989		1,875,254		28,964,243

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 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		4,263,748	1,316,824
Interest income		552	1,725
Cash was applied to:			
Payments to suppliers		(1,673,952)	(245,789)
Interest and other finance costs paid		(864,760)	(254,427)
GST received/(paid)		69,220	(44,551)
Net cash inflow/(outflow) from operating activities	22	1,794,808	773,782
Cash flows from investing activities			
Cash was provided from:			
Sale of investment properties		3,875,000	-
Cash was applied to:			
Payment for purchase of investment properties		-	(45,560,000)
Payments for capital expenditure on investment properties		(1,382,596)	(283,677)
Net cash inflow/(outflow) from investing activities		2,492,404	(45,843,677)
Cash flows from financing activities			
Cash was provided from:			
Proceeds from issue of units		-	28,000,000
Proceeds from borrowings		-	18,542,402
Cash was applied to:			
Term Loan repaid		(2,235,000)	-
Unit issue transaction costs		-	(911,011)
Distributions to investors	15	(2,088,333)	(416,236)
Net cash inflow/(outflow) from financing activities		(4,323,333)	45,215,155
Net increase in cash and cash equivalents		(36,121)	145,260
Cash and cash equivalents at the start of the financial period		145,260	-
Cash and cash equivalents at the end of the financial period	6	109,139	145,260

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 2018

Note 1. Significant accounting policies

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

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

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

This financial report is for the year 1 April 2017 to 31 March 2018 with the comparative period being for a 3 ½ month period from 14 December 2016 to Balance Date being 31 March 2017.

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 28 June 2018.

As required by FRS-42 – Prospective Financial Statements, the prospective financial information provided in the Product Disclosure Statement of the Fund, issued 1 November 2016, 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 amending Accounting Standards and Interpretations issued by the External Reporting Board ('XRB') that are mandatory for the current reporting period.

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 2018

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.

- **NZ IFRS 9 Financial Instruments** - effective for periods beginning on or after 1 January 2018. NZ IFRS 9 will replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IFRS 9 simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value – 'the available for sale' and 'held to maturity' categories no longer exist. The new categories of financial assets are:
  - Amortised cost – those assets with 'basic' loan features.
  - Fair value through other comprehensive income – this treatment is optional for equity instruments not held for trading (this choice is made at initial recognition and is irrevocable).
  - Fair value through profit and loss – everything that does not fall into the above categories.

  The rules for reclassification of financial assets have been simplified. Financial assets are now reclassified only when the entity's business model changes – this is expected to be very infrequent. This standard is not expected to have a significant impact on the Fund's financial statements.

- **NZ IFRS 15 Revenue from Contracts with Customers -** NZ IFRS 15 is a new standard that establishes principles for reporting about the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. It prescribes when an entity will recognise revenue, how much revenue to recognise and what disclosures to make about revenue.

  Specifically, NZ IFRS 15 requires an entity to provide information about:
  - Revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories;
  - Contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;
  - Performance obligations, including when the entity typically satisfies its performance obligations and the transaction price that is allocated to the remaining performance obligations in a contract;
  - Significant judgements, and changes in judgements, made in applying the requirements to those contracts; and
  - Assets recognised from the costs to obtain or fulfil a contract with a customer.

  The standard is effective for annual periods beginning on or after 1 January 2018. This standard is not expected to have a significant impact on the Fund's financial statements, due to its principal revenue being lease income and the disclosures already made in the Fund's financial statements about its revenue and contracts.

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

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 1. Significant accounting policies (continued)

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

Operating Expenses recoveries
Operating Expenses recoveries revenue is recognised on an accrual basis as the expenses are incurred and expected to be recovered from tenants.

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.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

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

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

Financial Assets

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

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Both trade and other receivables are classified as loans and receivables.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 1. Significant accounting policies (continued)

Other financial assets
Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement. They are subsequently measured at amortised cost. Classification is determined based on the purpose of the asset and subsequent reclassification to other categories is restricted.

All financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets
The Fund assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

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.

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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 1. Significant accounting policies (continued)

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.

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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 1. Significant accounting policies (continued)

Issued units
Units issued are classified as equity.

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

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

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

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

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

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

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

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

Management Fees
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
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 2018

Note 1. Significant accounting policies (continued)

Property Project Fees
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 Fees
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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

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.

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 2018 and the period ended 31 March 2017 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.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 4. Revenue

	2018	2017
	$	$
Sales revenue		
Rent from investment properties	3,580,965	1,075,517
Operating expenses recoveries	728,812	257,417
	4,309,777	1,332,934

Note 5. Specific expenses

	2018	2017
	$	$
Net profit before tax includes the following specific expenses:		
Property operating expenses		
Expenses on investment property that generated rental income	1,068,303	326,115
Administrative		
Auditors remuneration		
- Audit of the Fund's financial statements	25,000	22,000
- Analysis of budget model		5,500
Net finance expenses		
Interest and finance charges paid/payable	864,760	245,789
Interest revenue	(552)	(1,725)
	864,208	244,064

Note 6. Cash and cash equivalents

	2018	2017
	$	$
Cash at bank – ASB Bank Limited	109,139	145,260
	109,139	145,260

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

Note 7. Trade and other receivables

	2018	2017
	$	$
Trade receivables	48,194	18,526
	48,194	18,526
GST receivable	18,193	87,413
Other receivables	9,924	-
	76,311	105,939

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 2018 or the period ended 31 March 2017.

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

The Fund did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 8. Other current assets

	2018	2017
	$	**$**
Lease Inducements	72,862	-
Prepayments	11,520	11,013
Deferred commission	91,573	-
	175,955	11,013

Note 9. Investment properties

	2018	**2017**
	$	**$**
Investment properties - at independent valuation	47,878,461	47,825,000
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current financial year are set out below:		
Opening fair value	47,825,000	-
Acquisition of investment property at cost	-	45,560,000
Capital additions to investment property at cost	1,382,596	283,677
Investment Property sold during the year	(3,875,000)	-
Revaluation increments	2,711,281	1,981,323
Loss on sale of Investment Property	(165,416)	
		-
Closing fair value	47,878,461	47,825,000

Acquisition of investment properties
In the 2017 period the Fund purchased eight investment properties. Their purchase cost was equivalent to their fair value at that time.

Sale of investment properties
In the 2018 year the Fund sold one investment property and subsequent to year end, entered into contracts on two other properties to be sold.

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

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

The Investment Properties that have entered into contracts subsequent to year end have been valued as followed:

- 1214 Ranolf Street has been valued at fair value being the sale price of $1,800,000 instead of the valuation of $1,825,000.
- 117 Willow Street, Tauranga has been valued at fair value of $2,928,461 being the sale price of $3,200,000 less the costs of fitout that the fund need to pay of $271,539, compared to the valuation of $3,140,000.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

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

Key valuation considerations:

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

Summary of investment properties held at 31 March 2017:

Property	Cost at acquisition	Capital cost during period	Fair valuation movement	Fair value at 31 March 2017
52 Lovegrove Crescent, Otara, Auckland	3,950,000	9,500	15,500	3,975,000
5 Short Street, Newmarket, Auckland	14,200,000	72,171	877,829	15,150,000
2 Robert Street, Ellerslie, Auckland	8,850,000	8,299	41,701	8,900,000
22 Amersham Way, Manukau, Auckland	7,300,000	188,812	11,188	7,500,000
143 Durham Street, Tauranga	4,850,000	960	324,040	5,175,000
127 Durham Street, Tauranga	2,340,000	3,685	306,315	2,650,000
117 Willow Street, Tauranga	2,400,000	250	349,750	2,750,000
1214 Ranolf Street, Rotorua	1,670,000	-	55,000	1,725,000
Total	**45,560,000**	**283,677**	**1,981,323**	**47,825,000**

Key valuation considerations:

Property	Valuer	Net market income $	Yield on net market income	Residual lease term
52 Lovegrove Crescent, Otara, Auckland	Aim Valuation Limited	333,000	8.4%	5.3 years
5 Short Street, Newmarket, Auckland	Aim Valuation Limited	1,010,000	7.9%	2.9 years
2 Robert Street, Ellerslie, Auckland	Aim Valuation Limited	744,000	8.4%	2.9 years
22 Amersham Way, Manukau, Auckland	Aim Valuation Limited	630,000	8.4%	1.2 years
143 Durham Street, Tauranga	Telfer Young (TGA) Ltd	395,794	7.7%	2.0 years
127 Durham Street, Tauranga	Telfer Young (TGA) Ltd	189,147	7.1%	0.1 years
117 Willow Street, Tauranga	Telfer Young (TGA) Ltd	244,721	8.9%	1.5 years
1214 Ranolf Street, Rotorua	Telfer Young (Rotorua) Ltd	131,000	7.6%	2.0 years

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 9. Investment Properties (continued)

Fair value measurement

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

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

Investment properties are the only assets carried at fair value, and they are included within level 3 of the fair value hierarchy. They have a carrying value of $47,878,461 at 31 March 2018 (2017: $47,825,000).

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 $84,622 (2017: $59,086).

There were no transfers between levels during the financial period.

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

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

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

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

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

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

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 9. Investment Properties (continued)

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

	2018	2017
	Investment	**Investment**
	Properties	properties
	$	$
Opening Balance	47,825,000	-
Additions	1,382,596	45,843,677
Sales	(3,875,000)	-
Loss on sale of investment property	(165,416)	-
Gains on investment property recognised in profit or loss	2,711,281	1,981,323
Balance at 31 March	47,878,461	47,825,000

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

Description	**Unobservable inputs**	**2018 Range (weighted average)**	**2017 Range (weighted average)**
Investment properties	Rental yield	7% to 8.5% (7.8%)	7.6% to 9.0% (8.3%)
	Rental growth	1.25% to 1.75% (1.50%)	1.25% to 1.75% (1.50%)
	Market capitalisation rate	6.9% to 7.9% (7.44%)	6.5% to 8.5% (7.5%)
	Discount rate	7.75% to 9.5% (8.53%)	7.0% to 9.5% (8.25%)

Sensitivity Analysis
At 31 March it is estimated a general decrease in the value of the investment properties of 1% would have decreased the Groups profit before income tax by $478,785 (2017: $478,250).

Note 10. Trade and other payables

	2018	2017
	$	**$**
Trade payables	313,158	168,521
PIE Tax payable	30,253	37,212
	343,411	205,733

Refer to note 16 for further information on financial instruments.

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 11. Derivative financial instruments

	2018	2017
	$	$
Interest rate swaps – ASB Bank Limited	84,622	59,086

The Fund entered into two interest rate swap agreements with the ASB Bank on 14 December 2016. The Fund is a fixed rate payer under the terms of these agreements. Specific details are as follows:

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

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

Refer to note 16 for further information on financial instruments.

Note 12. Other current liabilities

	2018	2017
	$	$
Accrued expenses	412,842	152,415
Income received in advance	56,501	-
	469,343	152,415

Note 13. Borrowings

	2018	2017
	$	$
Bank loans	16,307,402	18,542,402
	16,307,402	18,542,402

Refer to note 16 for further information on financial instruments

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:

	2018	2017
	$	$
Total facilities		
Bank overdraft	-	-
Bank loans	17,981,000	21,665,000
	17,981,000	21,665,000
Used at the reporting date		
Bank overdraft	-	-
Bank loans	16,307,402	18,542,402
	16,307,402	18,542,402

PMG Direct Office Fund
Notes to the Financial Statements
For the year ended 31 March 2018

Note 14. Issued units

	2018 Units	2017 Units	2018 $	2017 $
Units - fully paid	28,000,000	28,000,000	28,000,000	28,000,000

Movements in issued units

Details	Date	No of units	Issue price	$
Issue of units	7 December 2016	28,000,000	$1.00	28,000,000
Unit issue transaction costs, net of tax	7 December 2016	-	$0.00	(911,011)
Balance	**31 March 2018**	**28,000,000**		**27,088,989**

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

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

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

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

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.

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2018

Note 15. Distributions

Distributions
In the year ending 31 March 2018 a distribution was paid on the 25th of each month for 0.625 cents per unit totalling $175,000 per month. 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.

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
	2,100,000

Distributions paid in the previous financial year were as follows:

	2017
	$
Distribution paid for period ended 31 December 2016 0.32 cents per unit	89,570
Distribution paid for period ended 31 January 2017 0.58 cents per unit	163,333
Distribution paid for period ended 28 February 2017 0.58 cents per unit	163,333
Distribution paid for period ended 31 March 2017 0.58 cents per unit	163,333
	579,569

On 31 March 2017 the Directors of the Manager declared a final distribution for the period ended 31 March 2017 of 0.58 cents per unit which was paid on 25 April 2017, a total distribution of $163,333 based on the number of units on issue as at 31 March 2017. 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 $173,459 from distributions made to investors. $30,253 remains payable at 31 March 2018 and is shown in the statement of financial position. (During the 2017 financial period, the Fund deducted $60,945 from distributions made to investors. $37,212 remains payable at 31 March 2017 and is shown on the statement of financial position).

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2018

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 $16,307,402, are interest-only payment loans. Monthly cash outlays of approximately $65,000 per month are required to service the interest payments. An official increase/decrease in interest rates of 100 basis points would have an adverse/favourable effect on profit before tax of $43,074 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 2018

Note 16. Financial instruments (continued)

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

	2018	2017
	$	$
Bank loans	1,673,598	3,122,598
	1,673,598	3,122,598

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

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

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

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
2017	%	$	$	$	$	$
Non-derivatives						
Non-interest bearing						
Trade payables	-%	168,521	-	-	-	168,521
Other payables	-%	152,415	-	-	-	152,415
Distributions payable	-%	163,333	-	-	-	163,333
PIE Tax Payable	-%	37,212				37,212
Interest-bearing - floating rate						
Bank loans	4.05%	750,951	750,951	19,105,213	-	20,607,115
Total non-derivatives		1,273,308	750,951	19,105,213	-	21,129,472
Derivatives						
Interest Rate Swaps	2.49-2.72%	90,200	67,500	49,650	-	207,350
Total derivatives		90,200	67,500	49,650	-	207,350

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2018

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 it is estimated that a general increase of 1% in interest rates would have decreased the Funds profit before income tax of $43,074 (2017: $65,424). This was calculated by reference to an increase to the floating rate on the loans that do not have derivatives in place.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 17. Contingent liabilities

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

Note 18. Commitments

	2018	2017
	$	**$**
Capital commitments		
Committed at the reporting date but not recognised as liabilities:		
Investment properties	12,300,000	90,062

Commitments to capital expenditure on investment properties relate to the Purchase of 8 Rockridge Avenue, Penrose $12,150,000 – this is contingent on selling Willow Street, Ranolf and bank funding and the upgrade to lifts at 5 Short Street $265,910 of which $115,910 was paid prior to year end.

Note 19. Related party transactions

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

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

	2018	2017
	$	**$**
Payment for goods and services:		
Payment of Property Fund and management fees to the Manager	322,888	96,344
Payment of Project Management fees to the Manager	52,367	21,626
Payment of Performance fees to the Manager	397,273	89,182
Payment of Commission to the Manager for sale of property	38,750	-
Payment of Supervisor fees to the Supervisor	20,170	5,924
Payment of services to Forsite Limited (Manager-related entity, Scott McKenzie is a Director of the Manager)	920	-
Income was received by the Fund for		
Rent paid by the Manager for office in 5 Short Street, Newmarket	34,327	4,486
Investments in the Fund:		
Units held by Denis McMahon Family Trust (Manager-related entity, Denis McMahon, is a Director of the Manager)	200,000	200,000
Distribution made to Denis McMahon Family Trust	14,997	4,140
Units held by Property Managers Limited (Manager)	100,000	-
Distributions made to the Manager	3,177	-

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2018

Note 19. Related party transactions (continued)

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

	2018	**2017**
	$	**$**
Current payables:		
Trade payables to the Manager	80,286	120,549
Performance Fee payable by the Manager	403,286	89,991
Trade payables to the Supervisor	5,754	5,000
Distribution payable to Denis McMahon Family Trust	1,250	1,167

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:

	2018	2017
	$	**$**
Not later than one year	2,790,017	2,554,033
Later than one year and not later than five years	5,011,162	5,544,936
Later than five years	673,814	445,117
	--------------	-------------
Total Lease payments receivable	8,474,993	8,544,086

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

In April 2018 the Fund has entered into a conditional agreement for the Sale of 117 Willow Street Tauranga for $3,200,000. This agreement is conditional upon Tauranga City Council consent until 31 August 2018.

In May 2018 the Fund has entered into a conditional agreement for the sale of 1214 Ranolf Street Rotorua for $1,800,000. This went unconditional on 19 June 2018 and is due to settle on 29 June 2018.

PMG Direct Office Fund
Notes to the financial statements
For the year ended 31 March 2018

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

	2018	2017
	$	$
Profit after income tax expense for the year	3,995,845	2,454,823
Adjustments for:		
Net fair value movement on investment properties	(2,711,281)	(1,981,323)
Loss on sale of investment property	165,416	-
Net fair value movement on derivative financial instruments	25,536	59,086
Change in operating assets and liabilities:		
Increase in trade and other receivables	(39,592)	(18,526)
Increase in other current assets	(507)	(11,013)
Increase in trade and other payables	137,678	205,733
Increase in other current liabilities	260,427	152,415
Increase in lease inducements	(72,862)	-
Increase in deferred expenses	(91,573)	-
Increase in Income received in advance	56,501	-
Decrease/(Increase) in GST receivable	69,220	(87,413)
Net cash inflow/(outflow) from operating activities	1,794,808	773,782

Note 23. Comparison to prospective financial statements

A comparison to the prospective financial statements, as issued in the Product Disclosure Statement (PDS) issued 1 November 2016, 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

- The PDS did not include fair valuation of investment property.
- The PDS did not allow for sale of any investment property nor repayment of borrowings.
- Capital expenditure was more than budgeted due to capital expenditure being deferred from the 2017 year.
- The minimum Raise of $28m units was allotted, the PDS was budgeted at maximum Raise of $29m.

Statement of Profit or Loss and Other Comprehensive Income

- Property Managers Limited is entitled to a performance fee based on performance of the Fund. The Prospective Financial Statements had no performance fee payable in them.

Statement of Cash Flows

- Increased capital expenditure
- Closed based on minimum Raise (PDS was on maximum Raise)

PMG Direct Office Fund
Shareholder information
For the year ended 31 March 2018

Note 23. Comparison to prospective financial statements continued

Statement of Financial Position

	Note	2018 Actual $	Prospective	Variation
Assets				
Current assets				
Cash and cash equivalents	6	109,139	87,183	21,956
Trade and other receivables	7	76,311	72,985	3,326
Other current assets	8	175,955	-	175,955
Total current assets		361,405	160,168	201,237
Non-current assets				
Investment properties	9	47,878,461	48,735,000	(856,539)
Total non-current assets		47,878,461	48,735,000	(856,539)
Total assets		48,239,866	48,895,168	(655,302)
Liabilities				
Current liabilities				
Trade and other payables	10	313,158	199,466	113,692
PIE Tax Payable	10	30,253	-	30,253
Derivative financial instruments	11	84,622	-	84,622
Distributions payable	15	175,000	181,250	(6,250)
Other current liabilities	12	469,343	-	469,343
Total current liabilities		1,072,376	380,716	691,660
Non-current liabilities				
Borrowings	13	16,307,402	20,400,000	(4,092,598)
Total non-current liabilities		16,307,402	20,400,000	(4,092,598)
Total liabilities		17,379,778	20,780,716	(3,400,938)
Net assets		30,860,088	28,114,452	2,745,636
Equity				
Issued units	14	27,088,989	28,070,000	(981,011)
Retained earnings		3,771,099	44,452	3,726,647
Total equity		30,860,088	28,114,452	2,745,636

PMG Direct Office Fund
Shareholder information
For the year ended 31 March 2018

Note 23. Comparison to prospective financial statements continued

Statement of Profit or Loss and Other Comprehensive Income

		2018		
		Actual	Prospective	Variation
	Note	$	$	$
Revenue	4	4,309,777	4,578,831	(269,054)
Expenses				
Property operating expenses	5	1,068,303	907,217	161,086
Property and Fund management fees		322,888	330,118	(7,230)
Property and Fund Management performance fee		397,273	-	397,273
Supervisor fees		20,170	-	20,170
Administrative	5	167,728	219,291	(51,563)
Operating profit		2,333,415	3,122,205	(788,790)
Net Finance expenses	5	864,208	906,693	(42,485)
Dividends Received		6,309	-	6,309
Net fair value gain on investment properties	9	2,711,281	-	2,711,281
Net loss on disposal of investment property	9	(165,416)	-	(165,416)
Fair value movement on derivative financial instruments		(25,536)	-	(25,536)
Net profit		**3,995,845**	**2,215,512**	**1,945,749**
Other Comprehensive Income		-	-	-
Total comprehensive income		**3,995,845**	**2,215,512**	**1,945,749**

PMG Direct Office Fund
Shareholder information
For the year ended 31 March 2018

Note 23. Comparison to prospective financial statements continued

Statement of Cash Flows

		2018	Prospective	Variation
	Note	$	$	$
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		4,263,748	4,564,449	(300,701)
Interest income		552	-	552
Cash was applied to:				
Payments to suppliers		(1,673,952)	(1,680,410)	6,458
Interest and other finance costs paid		(864,760)	(906,693)	41,933
GST received/(paid)		69,220	233,875	(164,655)
Net cash inflow/(outflow) from operating activities	22	1,794,808	2,211,221	(416,413)
Cash flows from investing activities				
Cash was provided from:				
Sale of investment properties		3,875,000	-	3,875,000
Cash was applied to:				
Payment for purchase of investment properties		-	-	-
Payments for capital expenditure on investment properties		(1,382,596)	(1,220,000)	(162,596)
Net cash inflow/(outflow) from investing activities		2,492,404	(1,220,000)	3,712,404
Cash flows from financing activities				
Cash was provided from:				
Proceeds from issue of units		-	-	-
Proceeds from borrowings		-	1,100,000	1,100,000
Cash was applied to:				
Term Loan repaid		(2,235,000)	-	(2,235,000)
Unit issue transaction costs		-	-	-
Distributions to investors	15	(2,088,333)	(2,162,917)	74,584
Net cash inflow/(outflow) from financing activities		(4,323,333)	(1,062,917)	(3,260,416)
Net increase in cash and cash equivalents		(36,121)	(71,696)	35,575
Cash and cash equivalents at the start of the financial period		145,260	158,878	(13,618)
Cash and cash equivalents at the end of the financial period	6	109,139	87,182	21,957

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PMG Direct Office Fund

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 19 to 46, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 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 2018, 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.

Information other than the financial statements and auditor's report

The Directors of the Fund's Manager, Property Managers Limited, (the "Manager") are responsible for the other information. The other information comprises the information included in the Annual Report on pages 4 to 15 and pages 50 to 53, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, 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 this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Crowe Horwath.
PART OF FINDEX

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 the audit.

We also provide the Directors of the Fund's Manager with a statement that the 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 Paolo Caccioppoli.

For and on behalf of:

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership

CHARTERED ACCOUNTANTS

Dated Wellington this 29th day of June 2018

Crowe Horwath New Zealand Audit Partnership is a member of Crowe Horwath International, a Swiss verein. Each member of Crowe Horwath is a separate and independent legal entity.


Property
Managers
Group

PMG IN THE COMMUNITY

"The greatest GOOD is what we do for one another"

2 INNOVATORS JOIN FORCES

We were very proud to support local teen Julia Newman who won the Business Awards Teenpreneur of the Year. We offered Julia an internship at PMG before she headed off to the USA on a tennis scholarship at Indiana University.

38 CLIMBS IN 52 DAYS

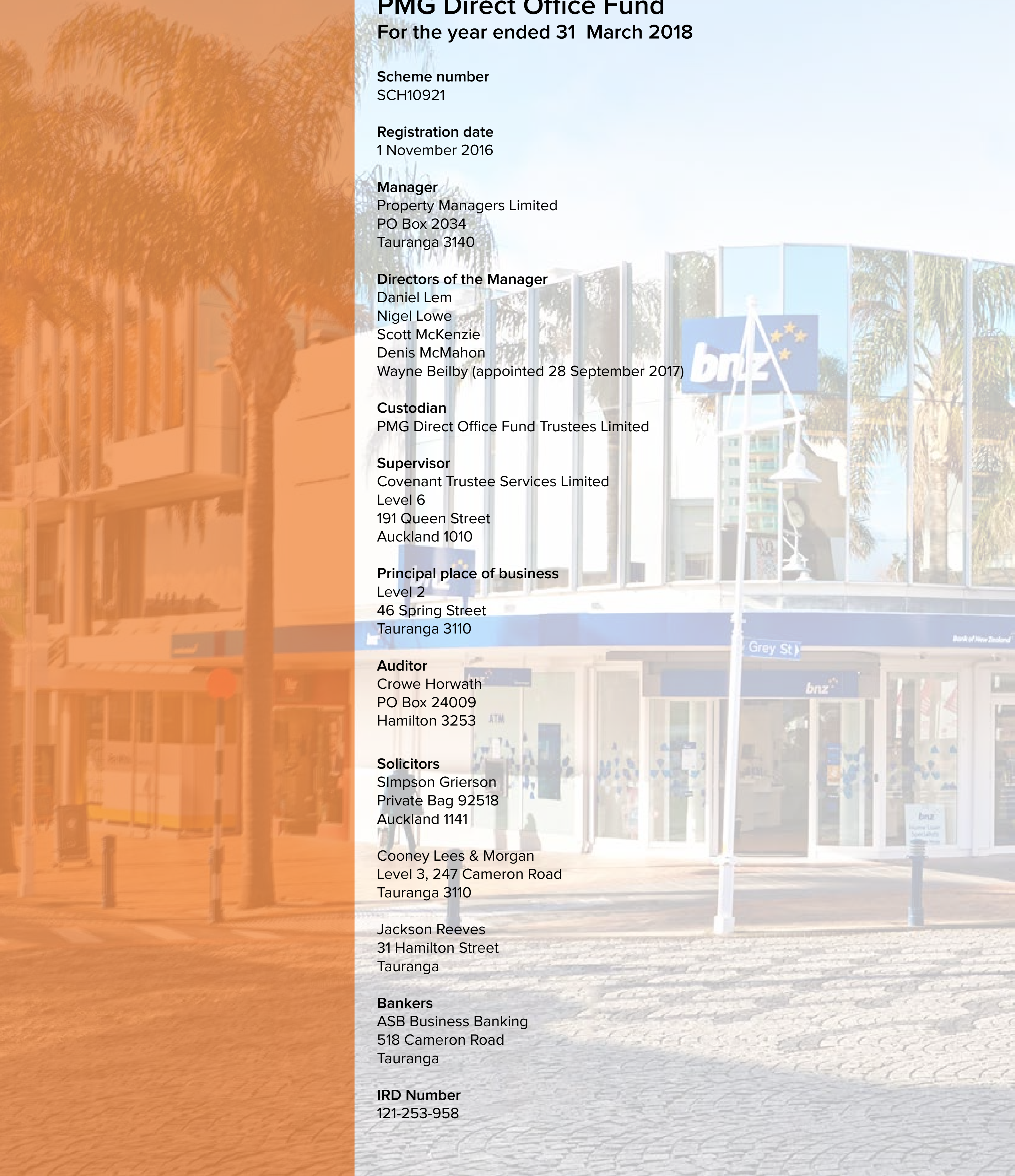
Team PMG took on the might of Mauao in the name of raising money for Waipuna Hospice ... we also got pretty fit in the process!

PINK RIBBON BREAKFAST
Breast Cancer Foundation NZ

ALL PINKED-OUT

The team enjoyed a very pink breakfast together to help raise awareness of Breast Cancer and in the process donated $550 to this very worthy cause.

DIRECTORY



PMG Direct Office Fund
For the year ended 31 March 2018

Scheme number
SCH10921

Registration date
1 November 2016

Manager
Property Managers Limited
PO Box 2034
Tauranga 3140

Directors of the Manager
Daniel Lem
Nigel Lowe
Scott McKenzie
Denis McMahon
Wayne Beilby (appointed 28 September 2017)

Custodian
PMG Direct Office Fund Trustees Limited

Supervisor
Covenant Trustee Services Limited
Level 6
191 Queen Street
Auckland 1010

Principal place of business
Level 2
46 Spring Street
Tauranga 3110

Auditor
Crowe Horwath
PO Box 24009
Hamilton 3253

Solicitors
SImpson Grierson
Private Bag 92518
Auckland 1141

Cooney Lees & Morgan
Level 3, 247 Cameron Road
Tauranga 3110

Jackson Reeves
31 Hamilton Street
Tauranga

Bankers
ASB Business Banking
518 Cameron Road
Tauranga

IRD Number
121-253-958

Directors: Property Managers Limited

(Manager of PMG Direct Office Fund)

DENIS McMAHON
Chairman & Director

SCOTT McKENZIE
CEO & Director

DANIEL LEM
Executive Director

NIGEL LOWE
CFO & Director

DR WAYNE BEILBY
Independent Director

Governance

The word governance has its origins in the Greek verb meaning to steer. Sitting at the core of governance is the idea of defining what success means for an organisation and utilising resources, inclusive of people, money and time to steer it towards that success. Governance encompasses the systems, processes and relationships through which an entity is directed or controlled.

Property Managers Group

INVESTMENT MANAGEMENT BODY CORPORATE

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