

# **PMG Direct Office Fund**

## **Financial Statements**

For the year ended 31 March 2021

**PMG Direct Office Fund**  
**Directory**  
**For the year ended 31 March 2021**

Scheme number	SCH10921
Registration date	1 November 2016
Manager	PMG Property Funds Management Limited PO Box 2034 Tauranga 3144
Directors of the Manager	Denis McMahon Scott McKenzie Nigel Lowe Wayne Beilby Glenn Butterworth (From 19 Feb 2021) Jonathon Cameron (From 11 March 2021) Tony Pitt (From 19 Feb 2021) James Storey (From 19 Feb 2021) Daniel Lem (Retired 19 Feb 2021)
Custodian	PMG Direct Office Fund Trustees Limited
Supervisor	Covenant Trustee Services Limited Level 6 191 Queen Street Auckland 1010
Principal place of business	Level 1 143 Durham Street Tauranga 3110
Auditor	Baker Tilly Staples Rodway Audit Limited Level 1, 247 Cameron Road Tauranga 3110
Solicitors	Simpson Grierson Private Bag 92518 Auckland 1141  Cooney Lees Morgan Level 3, 247 Cameron Road Tauranga 3110  Dentons Kensington Swan 89 The Terrace Wellington 6011
Bankers	ASB Business Banking 518 Cameron Road Tauranga
IRD Number	121-253-958

## **PMG Direct Office Fund**

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**For the year ended 31 March 2021**

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PMG Direct Office Fund  
Statement of Financial Position  
As at 31 March 2021

	Note	2021 Actual \$	2020 Actual \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	486,334	163,773
Trade and other receivables	7	190,840	71,851
Other current assets	8	745,391	720,192
Investment property held for resale	9	13,573,571	-
<b>Total current assets</b>		<u>14,996,136</u>	<u>955,816</u>
<b>Non-current assets</b>			
Investment properties	9	183,300,877	89,651,155
<b>Total non-current assets</b>		<u>183,300,877</u>	<u>89,651,155</u>
<b>Total assets</b>		<u>198,297,013</u>	<u>90,606,971</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	757,514	682,240
PIE Tax Payable	10	74,678	74,208
Derivative financial instruments	11	865,755	1,262,750
Distributions payable	15	461,500	287,500
Other current liabilities	12	2,243,624	1,260,006
Lease liabilities - current portion	21	11,411	-
<b>Total current liabilities</b>		<u>4,414,482</u>	<u>3,566,704</u>
<b>Non-current liabilities</b>			
Borrowings	13	74,752,402	32,215,402
Lease liabilities - non current portion	21	19,639,265	-
<b>Total non-current liabilities</b>		<u>94,391,667</u>	<u>32,215,402</u>
<b>Total liabilities</b>		<u>98,806,149</u>	<u>35,782,106</u>
<b>Net assets</b>		<u>99,490,864</u>	<u>54,824,865</u>
<b>Equity</b>			
Issued units	14	81,829,573	46,110,775
Retained earnings		17,661,291	8,714,090
<b>Total equity</b>		<u>99,490,864</u>	<u>54,824,865</u>

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

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

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

PMG Direct Office Fund  
Statement of Profit or Loss and Other Comprehensive Income  
For the year ended 31 March 2021

		2021	2020
	Note	Actual \$	Actual \$
<b>Revenue</b>	4	11,560,336	7,139,934
<b>Expenses</b>			
Property operating expenses	5	2,395,888	1,564,403
Property and Fund management fees		926,557	539,532
Property and Fund Management performance fee		1,408,981	903,426
Supervisor fees		60,759	20,096
Administrative	5	213,909	228,110
		<u>5,006,094</u>	<u>3,255,567</u>
<b>Operating profit</b>		6,554,242	3,884,367
Net Finance expenses	5	2,568,576	1,377,739
<b>Other Income and expenses</b>			
Dividends Received		1,356	2,253
Net fair value gain on investment properties	9	9,708,977	6,013,620
Net loss on disposal of investment property	9	(285,127)	-
Fair value movement on derivative financial instruments		396,995	(820,266)
<b>Net profit</b>		<u>13,807,867</u>	<u>7,702,235</u>
Other Comprehensive Income		-	-
<b>Total comprehensive income</b>		<u>13,807,867</u>	<u>7,702,235</u>

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

**PMG Direct Office Fund**  
**Statement of Changes in Equity**  
**For the year ended 31 March 2021**

	<b>Issued Units</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>2021</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 April 2020	46,110,774	8,714,091	54,824,865
Net profit for the year and total comprehensive income		13,807,867	13,807,867
Transactions with investors in their capacity as investors:			
Units issued during the year	37,760,000		37,760,000
Issue costs	(2,041,201)	-	(2,041,201)
Distributions to investors (note 15)		(4,860,667)	(4,860,667)
<b>Balance at 31 March 2021</b>	<b>81,829,573</b>	<b>17,661,291</b>	<b>99,490,864</b>
	<b>Issued Units</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>2020</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 April 2019	26,868,055	4,401,856	31,269,911
Net profit for the year and total comprehensive income		7,702,235	7,702,235
Transactions with investors in their capacity as investors:			
Units issued during the year	20,160,000	-	20,160,000
Issue costs	(917,281)	-	(917,281)
Distributions to investors (note 15)		(3,390,000)	(3,390,000)
<b>Balance at 31 March 2020</b>	<b>46,110,774</b>	<b>8,714,091</b>	<b>54,824,865</b>

*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 2021**

		<b>2021</b>	<b>2020</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Receipts from customers		11,436,143	6,957,049
Dividend Income		2,732	2,253
Interest income		1,356	6,363
Cash was applied to:			
Payments to suppliers		(4,016,179)	(2,275,067)
Interest and other finance costs paid		(2,609,948)	(1,414,542)
GST received/(paid)		88,093	38,051
Net cash inflow/(outflow) from operating activities	22	4,902,197	3,314,107
<b>Cash flows from investing activities</b>			
Cash was provided from:			
Sale of investment properties		20,356,270	-
Cash was applied to:			
Purchase of investment property and capital expenditure		(98,505,037)	(32,733,142)
Net cash inflow/(outflow) from investing activities		(78,148,767)	(32,733,142)
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Proceeds from issue of share capital		37,760,000	20,160,000
Proceeds from borrowings		63,087,000	13,735,000
Cash was applied to:			
Repayment of borrowings		(20,550,000)	-
Unit issue transaction costs		(2,041,202)	(917,280)
Distributions to investors	15	(4,686,667)	(3,277,500)
Net cash inflow/(outflow) from financing activities		73,569,131	29,700,220
Net increase in cash and cash equivalents		322,561	281,185
Cash and cash equivalents at the start of the financial period		163,773	(117,412)
Cash and cash equivalents at the end of the financial period	6	486,334	163,773

*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 2021**

**Note 1. Significant accounting policies**

**Reporting entity**

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

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

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

**Basis of preparation**

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

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

The financial statements were authorised for issue by the Directors of the Manager on 25 June 2021.

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

**Basis of measurement**

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

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

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

**New, revised or amended Accounting Standards and Interpretations adopted**

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

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

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

**Operating segments**

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



**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2021**

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

**Revenue recognition**

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

Revenue is recognised when a performance obligation is satisfied. Revenue is measured at the fair value of the consideration received or receivable. Specific revenue accounting policies are as follows:

*Rent*

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

*Operating Expenses recoveries*

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

The rent revenue and some of the outgoings recovered from the tenants constitute being part of a lease and are dealt with under the scope of NZ IFRS 16 *Leases*, and so are outside the scope of NZ IFRS 15 *Revenue from Contracts with Customers*. The Outgoings recovered that are dealt with under the scope of NZ IFRS 16 *Leases* are because they are closely related to the lease of the building and the tenant doesn't receive an additional separate service to the space when it reimburses those items to the Fund. These are expenses such as rates, insurance, lift expenses, valuation, fire expenses, plumbing and electricity maintenance and air conditioning services.

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

*Interest*

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

*Dividend Income*

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

**Income tax**

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

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

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2021**

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

***Financial Assets***

***Cash and cash equivalents***

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

***Trade and other receivables***

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

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

***Investment properties***

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

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

***Leases***

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

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

*As a Lessor of investment property:* The Fund only enters leases where it retains substantially all risk and ownership of the leased asset. All such leases are therefore classified as operating leases. All leased assets are included within Investment Properties.

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

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2021**

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

**Impairment of non-financial assets**

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

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

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

**Financial liabilities**

***Trade and other payables***

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

***Borrowings***

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

***Derivative financial instruments***

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

**Finance costs**

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

**Provisions**

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

**Fair value measurement**

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

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2021**

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

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

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

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

**Issued units**

Units issued are classified as equity.

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

**Distributions**

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

**Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Inland Revenue Department. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

**Insurance costs**

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

**Impairment of non-financial assets**

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

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2021**

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

**Management Fee Expenses**

The Manager is entitled to a management fee equal to:

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

**Performance Fee Expenses**

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

**Property Project Fees Expenses**

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

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

**Supervisor's Fee Expenses**

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

**Recovery of Expenses**

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

**Sub-contracted investment and administration services**

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

**Other fees**

If the Manager, with the approval of the Supervisor, undertakes any works related to any of the properties in the Fund that do not fit within any of the obligations contemplated under schedule 2 of the Establishment Deed related to fees, the Manager is entitled to be paid out of the Fund such fees for those works calculated on a "time in attendance" market rate, as agreed between the Manager and Supervisor.

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2021**

**Note 2. Critical accounting judgements, estimates and assumptions**

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

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

*Fair value measurement hierarchy*

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

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

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

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

**Note 3. Operating segments**

*Identification of reportable operating segments*

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

*Types of products and services*

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

*Major customers*

During the year ended 31 March 2020 no customers individually generated greater than 10% of revenue for the Fund. During the year ended 31 March 2021 a new customer is now generating more than 10% of the annual rental for the Fund as it has an annual rental of \$3,977,313 (which is approximately 40% of the Funds total current revenue).

*Key metrics*

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

**PMG Direct Office Fund**  
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**Note 3. Operating segments**

*Geographical location of non-current assets*

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

**Note 4. Revenue**

Revenue is accounted for in accordance with NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 16 Leases. Revenue is recognised when or as control of the promised services is transferred to customers, in an amount that reflects the consideration the Fund expect to be entitled to in exchange for those services.

	2021 \$	2020 \$
<i>Sales revenue</i>		
Rent from investment properties	9,396,392	5,689,592
Operating expense recoveries – NZ IFRS 16 Leases	1,677,717	1,063,426
Operating expenses recoveries – NZ IFRS 15 Revenue from contracts with customers	486,227	386,916
	<u>11,560,336</u>	<u>7,139,934</u>

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

**Property Ownership Services**

The Fund provides a suite of services to occupiers of the Fund's property, summarised as property ownership services. The Fund reports revenue from such services in the Revenue line in the statement of profit or loss and other comprehensive income. Property ownership services involve the management of the Fund's investment property leased to customers. Contracts for property ownership services are often structured so the Fund is reimbursed for subcontracted vendor costs as well as associated overhead expenses and management fees (operating expense recoveries). Property ownership services represent a series of distinct daily services rendered over time to deliver the overall performance obligation of managing the tenancy and property for each customer. The Fund is also often reimbursed for administrative and sub-contractor costs directly attributable to the properties under management.

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

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

**Accounts Receivable and Provision for Expected Credit Losses**

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

**Remaining Performance Obligations**

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

**PMG Direct Office Fund**  
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**Note 5. Specific expenses**

	2021 \$	2020 \$
Net profit before tax includes the following specific expenses:		
<i>Property operating expenses</i>		
Expenses on investment property that generated rental income	2,395,888	1,564,403
<i>Administrative</i>		
Auditors remuneration – financial statements audit & assurance services	71,000	65,800
Accountants remuneration	12,850	8,325
Consultancy & Legal fees	41,773	44,702
Valuation fees	30,019	61,178
Other Administration costs	58,267	48,105
	<u>213,909</u>	<u>228,110</u>
<i>Net finance expenses</i>		
Interest and finance charges paid/payable	2,571,299	1,384,102
Interest revenue	(2,732)	(6,363)
	<u>2,568,576</u>	<u>1,377,739</u>

**Note 6. Cash and cash equivalents**

	2021 \$	2020 \$
Cash at bank/(overdraft) – ASB Bank Limited	<u>486,334</u>	<u>163,773</u>
	<u>486,334</u>	<u>163,773</u>

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

**Note 7. Trade and other receivables**

	2021 \$	2020 \$
Trade receivables	<u>38,042</u>	<u>54,799</u>
	<u>38,042</u>	<u>54,799</u>
GST receivable	-	11,516
Other receivables	<u>152,798</u>	<u>5,536</u>
	<u>190,840</u>	<u>71,851</u>

*Expected credit loss of receivables*

The Fund has recognised no amount in profit or loss in respect of expected credit loss of receivables for the year ended 31 March 2021 or the year ended 31 March 2020.

*Past due but without a loss allowance*

There are no customers with balances past due but without a loss allowance for expected credit loss of receivables as at 31 March 2021 or 31 March 2020.

Management has used a provision matrix to determine the expected credit loss. No adjustment was made for the expected credit loss in the 31 March 2021 or 31 March 2020 balances, due to the loss amount being insignificant. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.



**PMG Direct Office Fund**  
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**Note 8. Other current assets**

	2021 \$	2020 \$
Lease Adjustments	493,767	500,079
Prepayments	151,840	70,757
Deferred Commission	99,784	149,356
	745,391	720,192

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

**Note 9. Investment properties**

*Acquisition of investment properties*

In the year ended 31 March 2021 the Fund purchased two investment properties, 152 Fanshawe Street, Auckland and 213 Tuam Street, Christchurch. In the year ended 31 March 2020 the Fund purchased two investment properties, 65B Main Highway, Auckland and 410 Victoria Street/12 Alma Street, Hamilton. The valuation of the Victoria Street property includes a car park stacker. The stacker has been deemed integral to the property and therefore has not been separately disclosed as plant and equipment.

*Sale of investment properties*

In the year ended 31 March 2021 the Fund sold 5 Short Street, Newmarket. In the year ended 31 March 2020 the Fund did not sell any investment property.

*Investment property held for resale*

In the year ended 31 March 2021 2 Robert Street, Ellerslie, Auckland is held for resale as it has a conditional contract for sale on it for \$13,700,000. The property is included in the total investment property shown above.

*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.

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

Given the circumstances of COVID-19 valuers have had regard to a range of inputs and market evidence in coming to their opinion of market value, with some noting that more weight has been placed on market transactions subsequent to 26 March 2020. It has also been noted within some reports that there may be a greater range of opinion around market value and that more regular review of valuations should be undertaken than in normal circumstances.

PMG Direct Office Fund  
Notes to the financial statements  
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Note 9. Investment properties (continued)

Reconciliation of investment properties held at 31 March 2021:

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

Reconciliation of investment properties fair value at 31 March 2021:

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

Investment Property held for resale  
Investment Properties

2021 \$	2020 \$
13,573,571	-
183,300,877	89,651,155
<u>196,874,448</u>	<u>89,651,155</u>



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Notes to the Financial Statements  
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**Note 9. Investment Properties (continued)**

*Key valuation considerations:*

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

*Reconciliation of investment properties held at 31 March 2020:*

Property	Valuation amount at 31 March 2019 \$	Capital cost during period \$	Purchase Price \$	Fair valuation movement \$	Movement in lease adj. and deferred commission	Valuation amount at 31 March 2020 \$
5 Short Street, Newmarket, Auckland	18,150,000	152,065	-	2,214,083	(16,148)	20,500,000
2 Robert Street, Ellerslie, Auckland	10,475,000	323,212	-	1,577,120	24,668	12,400,000
143 Durham Street, Tauranga	6,900,000	1,275,098	-	(602,381)	27,283	7,600,000
127 Durham Street, Tauranga	3,275,000	33,134	-	682,864	9,002	4,000,000
8 Rockridge Avenue, Auckland	12,450,000	342,754	-	551,282	155,964	13,500,000
410 Victoria Street/12 Alma Street, Hamilton	2,260	152,911	8,100,000	227,271	17,558	8,500,000
65B Main Highway, Auckland	-	560,378	21,743,000	1,363,381	83,241	23,750,000
213 Tuam Street, Christchurch	-	50,590	-	-	-	50,590
<b>Total Investment Property</b>	<b>51,252,260</b>	<b>2,890,142</b>	<b>29,843,000</b>	<b>6,013,620</b>	<b>301,568</b>	<b>90,300,590</b>

*Reconciliation of investment properties fair value at 31 March 2020:*

Property	Valuation amount at 31 March 2020 \$	Less Lease Adjustments \$	Less Deferred Commission \$	Fair Value at 31 March 2020 \$
5 Short Street, Newmarket, Auckland	20,500,000	(107,987)	(28,595)	20,363,418
2 Robert Street, Ellerslie, Auckland	12,400,000	(134,455)	(41,048)	12,224,497
143 Durham Street, Tauranga	7,600,000	(23,302)	(20,283)	7,556,415
127 Durham Street, Tauranga	4,000,000	(9,002)	-	3,990,998
8 Rockridge Avenue, Auckland	13,500,000	(124,534)	(59,430)	13,316,036
410 Victoria Street/12 Alma Street, Hamilton	8,500,000	(17,558)	-	8,482,442
65B Main Highway, Auckland	23,750,000	(83,241)	-	23,666,759
213 Tuam Street, Christchurch	50,590	-	-	50,590
<b>Total Investment Property</b>	<b>90,300,590</b>	<b>(500,079)</b>	<b>(149,356)</b>	<b>89,651,155</b>

**Note 9. Investment Properties (continued)**

*Key valuation considerations:*

Property	Valuer	Net market income \$	Yield on net market income	Residual lease term
5 Short Street, Newmarket, Auckland	Jones Lang LaSalle	\$1,243,398	6.89%	2.32 years
2 Robert Street, Ellerslie, Auckland	Jones Lang LaSalle	\$832,863	6.25%	5.55 years
143 Durham Street, Tauranga	Telfer Young	\$536,930	7.06%	4 years
127 Durham Street, Tauranga	Preston Rowe Paterson	\$220,585	5.50%	9 years
8 Rockridge Avenue, Auckland	Aim Valuation Limited	\$1,018,185	7.54%	1.94 years
410 Victoria Street/12 Alma Street, Hamilton	Telfer Young	\$575,407	6.46%	3.5 years
65B Main Highway, Auckland	Aim Valuation Limited	\$1,627,838	6.85%	5.92 years

**Fair value measurement**

*Fair value hierarchy*

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Investment properties are the only assets carried at fair value, and they are included within level 3 of the fair value hierarchy. They have a carrying value of \$196,874,448 at 31 March 2021 (2020: \$89,651,155).

*Valuation techniques for fair value measurements categorised within level 3*

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

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

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

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

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Notes to the Financial Statements  
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**Note 9. Investment Properties (continued)**

*Level 3 assets*

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

Description	Unobservable inputs	2021 Range (weighted average)	2020 Range (weighted average)
Investment properties	Rental yield	5.06% to 7.00% (6.10%)	5.50% to 7.45% (6.52%)
	Rental growth	1.67% to 2.46% (2.23%)	1.0% to 2.50% (1.80%)
	Market capitalisation rate	5.00% to 6.75% (5.91%)	5.50% to 7.00% (6.37%)
	Discount rate	5.50% to 7.70% (6.53%)	6.25% to 8.50% (7.24%)

**Sensitivity Analysis**

At 31 March it is estimated a general decrease in the value of the investment properties of 1% would have decreased the Fund's profit before income tax by \$1,968,744 (2020: \$896,512).

**Note 10. Trade and other payables**

	2021 \$	2020 \$
Trade payables	680,937	682,240
PIE Tax payable	74,678	74,208
GST payable	76,577	-
	<u>832,192</u>	<u>756,448</u>

Refer to note 16 for further information on financial instruments.

**Note 11. Derivative financial instruments**

The Fund holds derivative financial instruments at fair value through profit and loss in the form of interest rate swaps to reduce interest rate risk. At 31 March 2021, interest rate swaps had a notional value of \$52,000,000. Fair value has been determined by ASB Bank Limited.

	2021 \$	2020 \$
Interest rate swaps – ASB Bank Limited	<u>865,755</u>	<u>1,262,750</u>

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

**At 31 March 2021**

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

PMG Direct Office Fund  
Notes to the Financial Statements  
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**Note 11. Derivative financial instruments (continued)**

At 31 March 2020

Details	Maturity date	Notional value	Fixed interest rate	Fair value \$
Interest rate swap 1	14 December 2021	8,000,000	2.31%	(242,516)
Interest rate swap 2	16 August 2021	3,000,000	2.51%	(82,694)
Interest rate swap 3	15 August 2022	3,000,000	2.66%	(149,726)
Interest rate swap 4	14 December 2022	4,000,000	1.66%	(117,078)
Interest rate swap 5	14 April 2023	6,000,000	2.17%	(288,805)
Interest rate swap 6	3 July 2023	8,000,000	1.29%	(162,347)
Interest rate swap 7	1 July 2024	8,000,000	1.34%	(219,584)
		<u>40,000,000</u>		<u>(1,262,750)</u>

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

**Note 12. Other current liabilities**

	2021 \$	2020 \$
Accrued expenses	1,498,754	955,293
Income received in advance	<u>543,414</u>	<u>304,713</u>
	<u>2,042,168</u>	<u>1,260,006</u>

**Note 13. Borrowings**

	2021 \$	2020 \$
Bank loans	<u>74,752,402</u>	<u>32,215,402</u>
	<u>74,752,402</u>	<u>32,215,402</u>

*Assets pledged as security*

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

*Financing arrangements*

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

	2021 \$	2020 \$
Total facilities		
Bank overdraft	-	-
Bank loans	<u>76,124,000</u>	<u>35,274,000</u>
	<u>76,124,000</u>	<u>35,274,000</u>
Used at the reporting date		
Bank overdraft	-	-
Bank loans	<u>74,752,402</u>	<u>32,215,402</u>
	<u>74,752,402</u>	<u>32,215,402</u>

**PMG Direct Office Fund**  
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**Note 14. Issued units**

	<b>2021 Units</b>	<b>2020 Units</b>	<b>2021 \$</b>	<b>2020 \$</b>
Units - fully paid	78,000,000	46,000,000	85,920,000	48,160,000

**Movements in issued units**  
**Details**

	<b>Date</b>	<b>No of units</b>	<b>Issue price</b>	<b>\$</b>
Issue of units	7 December 2016	28,000,000	\$1.00	28,000,000
Unit issue transaction costs, net of tax	7 December 2016	-		(911,011)
Issue of units	17 April 2019	18,000,000	\$1.12	20,160,000
Unit issue transaction costs, net of tax	17 April 2019	-		(1,138,214)
Issue of units	30 June 2020	32,000,000	\$1.18	37,760,000
Unit issue transaction costs, net of tax	30 June 2020	-		(2,041,201)
Balance	31 March 2021	<b>78,000,000</b>		<b>81,829,573</b>

**Units**

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

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

**Unit buy-back**

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

**Capital risk management**

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

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

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

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

**Note 15. Distributions**

**Distributions**

In the year ending 31 March 2021 a distribution was paid on the 25<sup>th</sup> of each month as set out on the following page. On 31 March 2021 the Directors of the Manager declared a final distribution for the period ended 31 March 2021 of 0.5917 cents per unit which was paid on 25 April 2021, a total distribution of \$461,500 based on the number of units on issue as at 31 March 2021. 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.

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**Note 15. Distributions (continued)**

Distributions paid in this financial year were as follows:

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

Distributions paid in the previous financial year were as follows:

	2020
	\$
Distribution paid for period ended 16 April 2019 0.3333 cents per unit	93,333
Distribution paid for period ended 30 April 2019 0.2917 cents per unit	134,167
Distribution paid for period ended 31 May 2019 0.625 cents per unit	287,500
Distribution paid for period ended 30 June 2019 0.625 cents per unit	287,500
Distribution paid for period ended 31 July 2019 0.625 cents per unit	287,500
Distribution paid for period ended 31 August 2019 0.625 cents per unit	287,500
Distribution paid for period ended 30 September 2019 0.625 cents per unit	287,500
Distribution paid for period ended 31 October 2019 0.625 cents per unit	287,500
Distribution paid for period ended 30 November 2019 0.625 cents per unit	287,500
Distribution paid for period ended 31 December 2019 0.625 cents per unit	287,500
Distribution paid for period ended 31 January 2020 0.625 cents per unit	287,500
Distribution paid for period ended 28 February 2020 0.625 cents per unit	287,500
Distribution paid for period ended 31 March 2020 0.625 cents per unit	287,500
	<u>3,390,000</u>

On 31 March 2020 the Directors of the Manager declared a final distribution for the period ended 31 March 2020 of 0.75 cents per unit which was paid on 24 April 2020, a total distribution of \$287,500 based on the number of units on issue as at 31 March 2020. 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 \$177,566 from distributions made to investors. \$74,678 remains payable at 31 March 2021 and is shown in the statement of financial position. (During the 2020 financial period, the Fund deducted \$369,016 from distributions made to investors. \$74,208 remains payable at 31 March 2020 and is shown on the statement of financial position).



## Note 16. Financial instruments

### *Financial risk management objectives*

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

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

Risk management is carried out by senior executives ('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 \$74,752,402, are interest-only payment loans. Monthly cash outlays of approximately \$258,778 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 \$22,752 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.

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**Note 16. Financial instruments (continued)**

*Financing arrangements*

Unused borrowing facilities at the reporting date:

	2021 \$	2020 \$
Bank Overdraft	-	-
Bank loans	1,371,598	3,058,598
	<u>1,371,598</u>	<u>3,058,598</u>

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

*Remaining contractual maturities*

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

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

<b>Derivatives</b>						
Interest Rate Swaps	0.66-2.66%	613,509	414,304	164,997	-	1,192,809
Total derivatives		<u>613,509</u>	<u>414,304</u>	<u>164,997</u>	<u>-</u>	<u>1,192,809</u>

2020	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total \$
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-%	682,240	-	-	-	682,240
Other payables	-%	955,292	-	-	-	955,292
Distributions payable	-%	287,500	-	-	-	287,500
<i>Interest-bearing - floating rate</i>						
Bank overdraft		-	-	-	-	-
Bank loans	2.72%	878,879	878,879	32,271,040	-	34,028,799
Total non-derivatives		<u>2,803,911</u>	<u>878,879</u>	<u>32,271,040</u>	<u>-</u>	<u>35,953,830</u>

<b>Derivatives</b>						
Interest Rate Swaps	1.29-2.66%	568,300	520,122	449,129	-	1,537,550
Total derivatives		<u>568,300</u>	<u>520,122</u>	<u>449,129</u>	<u>-</u>	<u>1,537,550</u>

**PMG Direct Office Fund**  
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**Note 16. Financial instruments (continued)**

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

The 30 day BKBM spot rate as at 31 March 2021 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 2021 it is estimated that a general increase of 1% in interest rates would have decreased the Funds profit before income tax of \$236,580 (2020: \$2,154). This was calculated by reference to an increase to the floating rate on the loans that do not have derivatives in place.

**Fair values and fair value hierarchy**

Derivative financial instruments are the only liabilities carried at fair value, and they are included within level 2 of the fair value hierarchy. They have a carrying value of \$865,755 (2020: \$1,262,750).

There were no transfers between levels during the financial period.

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

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

The carrying amounts shown in the statement of financial position are a reasonable approximation of the fair value of the financial instruments. The methods used in determining the fair value of financial instruments are disclosed in note 1. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

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

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

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

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

**Classification and fair values**

	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
<b>31 March 2021</b>				
<b>Financial Liabilities Designated at fair value</b>				
Derivative Financial Instruments	865,755	0	865,755	0
<b>Total Financial Liabilities</b>	<b>865,755</b>	<b>0</b>	<b>865,755</b>	<b>0</b>

	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
<b>31 March 2020</b>				
<b>Financial Liabilities Designated at fair value</b>				
Derivative Financial Instruments	1,262,750	0	1,262,750	0
<b>Total Financial Liabilities</b>	<b>1,262,750</b>	<b>0</b>	<b>1,262,750</b>	<b>0</b>

**PMG Direct Office Fund**  
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**Note 17. Contingent liabilities**

There is a contingent liability at 31 March 2021 for a tenancy underwrite agreement that was included in the Sale and Purchase Agreement when the Fund sold Short Street. The underwrite expires in December 2021. There has been an accrual made for the expected cost of this of \$162,658. If higher vacancy than projected by Management in their forecast the Fund is liable for any shortfall between the amount guaranteed in the Sale and Purchase Agreement and the amount received. (2020: Nil).

**Note 18. Commitments**

	2021 \$	2020 \$
<b>Capital commitments</b>		
Committed at the reporting date but not recognised as liabilities:		
Investment properties	0	500,000

The Capital Expenditure Commitment at 31 March 2020 related to a \$500,000 commitment to a fit-out for Ministry of Justice at Main Highway.

**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:*

	2021 \$	2020 \$
<b>Payment for goods and services:</b>		
Payment of Property Fund and management fees to the Manager	926,557	539,532
Payment of Project Management fees to the Manager	82,554	131,952
Payment of Performance fees to the Manager	1,186,480	903,426
Payment of Commission to the Manager for the sale or acquisition of property	1,159,000	298,430
Payment of Equity Raise Costs to the Manager	96,205	35,491
Payment of Brokerage/Underwriting Fee	1,684,450	856,800
Payment of Supervisor fees to the Supervisor	60,759	20,096
Payment of services to Forsite Limited (Manager-related entity, Scott McKenzie and Wayne Beilby are Director's in Forsite and of the Manager)	9,780	8,300
Rental receipt from Forsite Limited	33,432	-

**Income was received by the Fund for**

Rent paid by the Manager for office in 5 Short Street, Newmarket and 143 Durham Street, Tauranga	185,422	133,367
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**Investments in the Fund:**

	2021 Units	2020 Units
Units held by D & S McMahon Family Trust (Manager-related entity, Denis McMahon, is a Director of the Manager)	205,000	200,000
Units held by PMG Capital Fund Limited	2,785,000	-
Units held by Piwakawaka Trust (Scott McKenzie's Trust) (Director of the Manager)	19,000	-
Units held by NS & MK Lowe Family Trust (Director of the Manager)	200,000	-
Units held by PMG Investments 2021 Limited	1,275,000	-

PMG Property Management Funds Limited purchased 500,000 units in PMG Direct Office Fund during the year and sold them. They held Nil units at 31 March 2021.

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

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

**PMG Direct Office Fund**  
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**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:

	2021 \$	2020 \$
Current payables:		
Trade payables to the Manager	124,547	79,776
Performance Fee payable to the Manager	1,186,480	903,426
Trade payables to the Supervisor	15,535	5,805

*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:

	2021 \$	2020 \$
Not later than one year	11,812,069	5,607,905
Later than one year and not later than two years	10,619,063	4,886,045
Later than two years and not later than three years	9,046,809	3,710,773
Later than three years and not later than four years	8,175,410	3,138,031
Later than four years and not later than five years	7,237,016	2,894,986
Later than five years	11,664,260	5,733,512
Total Lease payments receivable	58,554,629	25,971,252

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

**Note 21. Leases**

**Lease liabilities summary**

Opening value 1 April 2020	Additions	Interest charged	Total Payments	Closing Balance 31 March 2021
-	19,651,032	487,852	(488,208)	19,650,676

The Fund pays an annual rental for the right to use the car park at the Tuam Street property. The annual rental increases by 2.25% every year apart from every sixth year when a market review takes place. As at 31 March 2021 the annual rental for the car park lease was \$331,270 plus GST. A portion of this amount is then on-charged to the tenant. The lease began with a 999 year term, commencing in September 2016. The Fund has the following minimum lease payments payable under its car park lease as calculated under the requirements of NZ IFRS16:

	2021 \$	2020 \$
Not later than one year	331,270	-
Later than one year and not later than two years	331,270	-
Later than two years and not later than three years	331,270	-
Later than three years and not later than four years	331,270	-
Later than four years and not later than five years	331,270	-
Later than five years	328,976,522	-
Total Lease payments payable	330,632,872	-

**PMG Direct Office Fund**  
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**Note 21. Leases**

The Fund pays an annual rental of \$859,200 for the ground lease at Fanshawe Street. The rental is reviewed every seven years from August 2019 and is set at 6% of the market value of the land at the time of review. As at 31 March 2021 the annual rental for the ground lease was \$859,200 plus GST. The lease began with a 150 year term, commencing in August 2004. The Fund has the following minimum lease payments payable under its ground lease as calculated under the requirements of NZ IFRS16:

	2021 \$	2020 \$
Not later than one year	859,200	-
Later than one year and not later than two years	859,200	-
Later than two years and not later than three years	859,200	-
Later than three years and not later than four years	859,200	-
Later than four years and not later than five years	859,200	-
Later than five years	112,978,915	-
	<hr/>	<hr/>
Total Lease payments payable	117,274,915	-

Total cash outflow relating to lease interest and principal payments during the year was \$488,208. (2020: Nil).

**Note 22. Events after the reporting period**

The Fund sold 2 Robert Street, Ellerslie property for \$13,700,000, with settlement occurring 16 June 2021.

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

	2021 \$	2020 \$
Profit after income tax expense for the year	13,807,867	7,702,235
Adjustments for non cash items:		
Net fair value movement on investment properties	(9,708,977)	(6,013,620)
Net loss on disposal of investment property	285,127	-
Net fair value movement on derivative financial instruments	(396,995)	820,266
<b>Change in operating assets and liabilities:</b>		
Increase in trade and other receivables	(130,505)	94,667
Increase in prepayments	(81,083)	(13,787)
Decrease in trade and other payables	200,624	(105,877)
Increase in accrued expenses	543,461	906,894
Increase in lease adjustments	6,312	(277,552)
Decrease in deferred expenses	49,572	(24,016)
Increase in Income received in advance	238,701	186,846
Decrease in GST receivable	88,093	38,051
	<hr/>	<hr/>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>4,902,197</b>	<b>3,314,107</b>

#### **Note 24. Comparison to prospective financial statements**

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

##### **Statement of Financial Position and Changes in Equity**

- Net borrowings were more due to the purchase of Fanshawe Street, which also made Investment properties higher than projected.
- Derivative Financial Instruments were less than projected due to new swaps being taken out at lower rates.
- Other current liabilities were higher due to the Managers performance fee being accrued which was not in the Prospective Financial Statements.
- Income in advance was higher due to tenants paying rent for April prior to 31 March.

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

- The Manager is entitled to a performance fee based on the performance of the Fund. The Prospective Financial Statements had no performance fee payable in them.
- Increased fair value movement on investment properties and derivative financial instruments as the Prospective Financial Statements did not allow for these items.
- Property Income, Operating costs and finance expenses were higher than forecast due to the Fanshawe Street income and expenses not being included in the projections.

##### **Statement of Cash Flows**

- Increased receipts from tenants.
- Decreased payments to suppliers.
- Increased payments on interest due to increased borrowings, as the Fund has purchased more Investment Property than forecast.
- Decreased unit issue transaction costs due to slightly less capital raised.

PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2021

Note 24. Comparison to prospective financial statements continued

Statement of Financial Position

		2021		
	Note	Actual	Prospective	Variation
		\$		
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	486,334	224,790	261,544
Trade and other receivables	7	190,840	-	190,840
Other current assets	8	745,391	770,095	(24,704)
Investment property held for resale	9	13,573,571	-	13,573,571
<b>Total current assets</b>		<u>14,996,136</u>	<u>994,885</u>	<u>14,001,251</u>
<b>Non-current assets</b>				
Investment properties	9	183,300,877	155,050,069	28,250,808
<b>Total non-current assets</b>		<u>183,300,877</u>	<u>155,050,069</u>	<u>28,250,808</u>
<b>Total assets</b>		<u>198,297,013</u>	<u>156,044,954</u>	<u>42,252,059</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	10	757,514	441,224	316,290
PIE Tax Payable	10	74,678	-	74,678
Derivative financial instruments	11	865,755	1,262,750	(396,995)
Distributions payable	15	461,500	433,333	28,167
Other current liabilities	12	2,243,624	-	2,243,624
Lease liabilities - current portion	21	11,411	313,426	(302,015)
<b>Total current liabilities</b>		<u>4,414,482</u>	<u>2,450,733</u>	<u>1,963,749</u>
<b>Non-current liabilities</b>				
Borrowings	13	74,752,402	57,215,402	17,537,000
Lease liabilities - non current portion	21	19,639,265	4,685,406	14,953,859
<b>Total non-current liabilities</b>		<u>94,391,667</u>	<u>61,900,808</u>	<u>32,490,859</u>
<b>Total liabilities</b>		<u>98,806,149</u>	<u>64,351,541</u>	<u>34,454,608</u>
<b>Net assets</b>		<u>99,490,864</u>	<u>91,693,413</u>	<u>7,797,451</u>
<b>Equity</b>				
Issued units	14	81,829,573	84,129,124	(2,299,551)
Retained earnings		<u>17,661,291</u>	<u>7,564,289</u>	<u>10,097,002</u>
<b>Total equity</b>		<u>99,490,864</u>	<u>91,693,413</u>	<u>7,797,451</u>



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2021

Note 24. Comparison to prospective financial statements continued

Statement of Profit or Loss and Other Comprehensive Income

		2021 Actual \$	Prospective \$	Variation \$
	Note			
<b>Revenue</b>	4	11,560,336	10,433,871	1,126,465
<b>Expenses</b>				
Property operating expenses	5	2,395,888	2,346,814	49,074
Property and Fund management fees		926,557	876,870	49,687
Property and Fund Management performance fee		1,408,981	-	1,408,981
Supervisor fees		60,759	20,000	40,759
Administrative	5	213,909	211,086	2,823
		<u>5,006,094</u>	<u>3,454,770</u>	<u>1,551,324</u>
<b>Operating profit</b>		6,554,242	6,979,101	(424,859)
Net Finance expenses	5	2,568,576	2,277,636	290,940
<b>Other Income and expenses</b>				
Dividends Received		1,356	-	1,356
Net fair value gain on investment properties	9	9,708,977	(1,127,101)	10,836,078
Net loss on disposal of investment property	9	(285,127)	-	(285,127)
Fair value movement on derivative financial instruments		396,995	-	396,995
<b>Net profit</b>		<u>13,807,867</u>	<u>3,574,364</u>	<u>10,233,503</u>
Other Comprehensive Income		-	-	-
<b>Total comprehensive income</b>		<u>13,807,867</u>	<u>3,574,364</u>	<u>10,233,503</u>

PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2021

**Note 24. Comparison to prospective financial statements continued**

<b>Statement of Changes in Equity</b>			
	<b>Issued Units</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>2021</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 April 2020	46,110,774	8,714,091	54,824,865
Net profit for the year and total comprehensive income		13,807,867	13,807,867
Transactions with investors in their capacity as investors:			
Units issued during the year	37,760,000		37,760,000
Issue costs	(2,041,201)	-	(2,041,201)
Distributions to investors (note 15)		(4,860,667)	(4,860,667)
<b>Balance at 31 March 2021</b>	<b>81,829,573</b>	<b>17,661,291</b>	<b>99,490,864</b>
	<b>Issued Units</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Prospective 2021</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Opening Equity	46,110,774	8,714,091	54,824,865
Net profit for the year and total comprehensive income	-	3,574,364	3,574,364
Transactions with investors in their capacity as investors:			
Units issued during the year	40,120,000	-	40,120,000
Issue costs	(2,101,650)	-	(2,101,650)
Distributions to investors (note 15)	-	(4,724,166)	(4,724,166)
<b>Balance at 31 March 2021</b>	<b>84,129,124</b>	<b>7,564,289</b>	<b>91,693,413</b>

**Note 24. Comparison to prospective financial statements continued**

**Statement of Cash Flows**

	Note	2021 \$	Prospective \$	Variation \$
<b>Cash flows from operating activities</b>				
Cash was provided from:				
Receipts from customers		11,436,143	10,104,956	1,331,187
Dividend Income		2,732	-	2,732
Interest income		1,356	-	1,356
Cash was applied to:				
Payments to suppliers		(4,016,179)	(5,018,087)	1,001,908
Interest and other finance costs paid		(2,609,948)	(2,036,013)	(573,935)
GST received/(paid)		88,093	95,950	(7,857)
Net cash inflow/(outflow) from operating activities	22	4,902,197	3,146,806	1,755,391
<b>Cash flows from investing activities</b>				
Cash was provided from:				
Sale of investment properties		20,356,270	-	-
Cash was applied to:				
Purchase of investment property and capital expenditure		(98,505,037)	(61,525,805)	(36,979,232)
Net cash inflow/(outflow) from investing activities		(78,148,767)	(61,525,805)	(36,979,232)
<b>Cash flows from financing activities</b>				
Cash was provided from:				
Proceeds from issue of share capital		37,760,000	40,120,000	(2,360,000)
Proceeds from borrowings		63,087,000	25,000,000	38,087,000
Cash was applied to:				
Repayment of borrowings		(20,550,000)	-	-
Unit issue transaction costs		(2,041,202)	(2,101,650)	60,448
Distributions to investors	15	(4,686,667)	(4,578,333)	(108,334)
Net cash inflow/(outflow) from financing activities		73,569,131	58,440,017	35,679,114
Net increase in cash and cash equivalents		322,561	61,018	261,543
Cash and cash equivalents at the start of the financial period		163,773	163,772	-
Cash and cash equivalents at the end of the financial period	6	486,334	224,790	261,543

## INDEPENDENT AUDITOR'S REPORT

### To the Investors of PMG Direct Office Fund

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the financial statements of PMG Direct Office Fund ('the Fund') on pages 3 to 34, which comprise the statement of financial position as at 31 March 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including 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 2021, 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') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Investors of the Fund. Our audit work has been undertaken so that we might state to the Investors of the Fund those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Investors of the Fund as a body, for our audit work, for our report or for the opinions we have formed.

##### 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) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 and provider of assurance services, we have no relationship with, or interests in, PMG Direct Office Fund.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters are selected from the matters communicated with the Directors of the Fund's Manager, but are not intended to represent all matters that were discussed with them.

Key Audit Matter	How our audit addressed the key audit matter
<p><b>VALUATION OF INVESTMENT PROPERTIES</b></p> <p>As disclosed within Note 9, the Fund owns investment properties situated throughout New Zealand. The market value of the properties as at 31 March 2021 was \$197.5m which is represented in the statement of financial position by Investment Property, Lease Incentives and Deferred Commission. Investment property &amp; associated balances makes up 99% of the total assets of the Fund.</p> <p>All of the properties had a valuation carried out by independent valuers (disclosed in Note 9) to value the property at 31 March 2021. The valuers engaged by the Fund performed their work in accordance with the International Valuation Standards and the Australia and New Zealand Valuation and Property Standards.</p> <p>We identified the valuation of investment property as a key audit matter, as the fair value involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology and in determining the underlying assumptions. The valuations are sensitive to key assumptions applied, including the capitalisation rate, discount rate, and terminal yield rate.</p> <p>Due to the nature of the properties the valuers consider other market information when determining a market value for the properties.</p>	<p>Our procedures in relation to management's valuation of investment properties amongst others included:</p> <ul style="list-style-type: none"> <li>• Reviewing the valuation reports for the Fund's investment properties, which have been used to form an estimate at balance date. We confirmed the valuation approaches for the properties were in accordance with professional valuation standards and IFRS 13 <i>Fair Value Measurement</i> and were suitable for determining the carrying value of the investment property as at 31 March 2021.</li> <li>• Evaluating the independent external valuers' competence, capabilities and objectivity including an assessment of the valuers' qualifications and expertise and reading their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work;</li> <li>• Assessing the methodologies used and the appropriateness of the key assumptions based on comparison to similar investment properties and valuations prepared by other valuers for similar property types, and market data available;</li> <li>• On a sample basis, reviewing the accuracy and relevance of the input data used, and assessing its consistency with information obtained during the audit;</li> </ul>

Key Audit Matter	How our audit addressed the key audit matter
The Fund has adopted the assessed values determined by the valuers, adjusted as necessary for other assets to avoid double counting to reach the final carrying value for investment property.	<ul style="list-style-type: none"> <li>Evaluating the disclosures relating to the investment property valuations included in Note 9 of the financial statements. We obtained confirmation from the valuers that reliance could be placed on the valuations as at 31 March 2021 for audit purposes.</li> </ul>

### Responsibilities of Directors of the Fund for the Financial Statements

The Directors of the Fund's Manager, PMG Property Funds Management Limited are responsible on behalf of the Fund for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the Directors of the Fund's Manager determine is necessary to enable the preparation of the 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 on behalf of the Fund 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 Investors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

The engagement partner on the audit resulting in this independent auditor's report is L M Stirling.

*Baker Tilly Staples Rodway*  
**BAKER TILLY STAPLES RODWAY AUDIT LIMITED**

**Tauranga, New Zealand**

25 June 2021