

# **PMG Direct Office Fund**

## **Financial Statements**

For the year ended 31 March 2020

**PMG Direct Office Fund**  
**Directory**  
**For the year ended 31 March 2020**

Scheme number	SCH10921
Registration date	1 November 2016
Manager	PMG Property Funds Management Limited PO Box 2034 Tauranga 3140
Directors of the Manager	Daniel Lem Nigel Lowe Scott McKenzie Denis McMahon Wayne Beilby
Custodian	PMG Direct Office Fund Trustees Limited
Supervisor	Covenant Trustee Services Limited Level 6 191 Queen Street Auckland 1010
Principal place of business	Level 1 143 Durham Street Tauranga 3110
Auditor	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  Jackson Reeves 31 Hamilton Street Tauranga 3112
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 2020**

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PMG Direct Office Fund  
Statement of Financial Position  
As at 31 March 2020

	Note	2020 \$	2019 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	163,773	-
Trade and other receivables	7	71,851	204,569
Other current assets	8	720,192	404,837
<b>Total current assets</b>		<u>955,816</u>	<u>609,406</u>
<b>Non-current assets</b>			
Investment properties	9	89,651,155	50,904,393
<b>Total non-current assets</b>		<u>89,651,155</u>	<u>50,904,393</u>
<b>Total assets</b>		<u>90,606,971</u>	<u>51,513,799</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings - bank overdraft	6	-	117,412
Trade and other payables	10	682,240	858,061
PIE Tax Payable	10	74,208	4,263
Derivative financial instruments	11	1,262,750	442,484
Distributions payable	15	287,500	175,000
Other current liabilities	12	1,260,006	166,266
<b>Total current liabilities</b>		<u>3,566,704</u>	<u>1,763,486</u>
<b>Non-current liabilities</b>			
Borrowings	13	32,215,402	18,480,402
<b>Total non-current liabilities</b>		<u>32,215,402</u>	<u>18,480,402</u>
<b>Total liabilities</b>		<u>35,782,106</u>	<u>20,243,888</u>
<b>Net assets</b>		<u>54,824,865</u>	<u>31,269,911</u>
<b>Equity</b>			
Issued units	14	46,110,775	26,868,055
Retained earnings		8,714,090	4,401,856
<b>Total equity</b>		<u>54,824,865</u>	<u>31,269,911</u>

  
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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 2020

	Note	2020 \$	2019 \$
<b>Revenue</b>	4	7,139,934	4,504,301
<b>Expenses</b>			
Property operating expenses	5	1,564,403	1,281,685
Property and Fund management fees		539,533	354,258
Property and Fund Management performance fee		903,426	18,591
Supervisor fees		20,096	21,614
Administrative	5	228,110	159,565
<b>Operating profit</b>		3,884,367	2,668,588
Net Finance expenses	5	1,377,739	1,061,807
<b>Other Income and expenses</b>			
Dividends Received		2,253	5,216
Net fair value gain on investment properties	9	6,013,620	1,747,801
Net loss on disposal of investment property	9	-	(271,180)
Fair value movement on derivative financial instruments		(820,266)	(357,861)
<b>Net profit</b>		<u>7,702,235</u>	<u>2,730,757</u>
Other Comprehensive Income		-	-
<b>Total comprehensive income</b>		<u>7,702,235</u>	<u>2,730,757</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 2020

	Issued Units	Retained earnings	Total equity
2020	\$	\$	\$
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
<i>Transactions with investors in their capacity as investors:</i>			
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>	<u>46,110,774</u>	<u>8,714,091</u>	<u>54,824,865</u>
	Issued Units	Retained earnings	Total equity
2019	\$	\$	\$
Balance at 1 April 2018	27,088,989	3,771,099	30,860,088
Net profit for the year and total comprehensive income		2,730,757	2,730,757
<i>Transactions with investors in their capacity as investors:</i>			
Units issued during the year	-		-
Issue costs	(220,934)	-	(220,934)
Distributions to investors (note 15)		(2,100,000)	(2,100,000)
<b>Balance at 31 March 2019</b>	<u>26,868,055</u>	<u>4,401,856</u>	<u>31,269,911</u>

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 2020**

	2020	2019
Note	\$	\$
<b>Cash flows from operating activities</b>		
Cash was provided from:		
Receipts from customers	6,957,049	4,257,752
Dividend Income	2,253	5,216
Interest income	6,363	4,321
Cash was applied to:		
Payments to suppliers	(2,275,067)	(1,976,026)
Interest and other finance costs paid	(1,414,542)	(1,095,935)
GST received/(paid)	38,051	(31,374)
Net cash inflow/(outflow) from operating activities	22 <u>3,314,107</u>	<u>1,163,954</u>
<b>Cash flows from investing activities</b>		
Cash was provided from:		
Sale of investment properties	-	12,600,076
Cash was applied to:		
Purchase of investment property and capital expenditure	<u>(32,733,142)</u>	<u>(13,842,647)</u>
Net cash inflow/(outflow) from investing activities	<u>(32,733,142)</u>	<u>(1,242,571)</u>
<b>Cash flows from financing activities</b>		
Cash was provided from:		
Proceeds from issue of share capital	20,160,000	-
Proceeds from borrowings	13,735,000	2,173,000
Cash was applied to:		
Unit issue transaction costs	(917,280)	(220,934)
Distributions to investors	15 <u>(3,277,500)</u>	<u>(2,100,000)</u>
Net cash inflow/(outflow) from financing activities	<u>29,700,220</u>	<u>(147,934)</u>
Net increase in cash and cash equivalents	281,185	(226,551)
Cash and cash equivalents at the start of the financial period	<u>(117,412)</u>	<u>109,139</u>
Cash and cash equivalents at the end of the financial period	6 <u><u>163,773</u></u>	<u><u>(117,412)</u></u>

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



**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2020**

**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 15 May 2020.

As required by FRS-42 – Prospective Financial Statements, the prospective financial information provided in the Product Disclosure Statement of the Fund, issued 11 March 2019, has been provided for comparative purposes in these financial statements. Any major variances in actual financial information compared to the prospective financial information are provided in note 23.

**Basis of measurement**

The financial statements have been prepared on the historical cost basis, and the going concern 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**

The Fund has adopted all new, revised or amended Accounting Standards and Interpretations issued by the External Reporting Board ('XRB') that are mandatory for the current reporting period. This includes NZ IFRS 16 *Leases*. As the Fund operates as a Lessor, there were no material changes to 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 2020**

**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 2020**

**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.

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

***Impairment of non-financial assets***

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

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

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 2020**

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

**Financial liabilities**

***Trade and other payables***

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

***Borrowings***

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

***Derivative financial instruments***

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

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

**Finance costs**

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

**Provisions**

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

**Fair value measurement**

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

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

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

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

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2020**

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

**Issued units**

Units issued are classified as equity.

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

**Distributions**

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

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

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

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

Cash flows are presented on a 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.

**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.

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2020**

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

**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.

**Comparatives**

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

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

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

*Fair value measurement hierarchy*

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

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

**PMG Direct Office Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2020**

**Note 2. Critical accounting judgements, estimates and assumptions (continued)**

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.

The outbreak of the Novel Coronavirus (COVID-19) declared by the World Health Organisations as a "Global Pandemic" on the 11<sup>th</sup> March 2020 has caused heightened uncertainty in both local and global financial markets. As at 31 March 2020 New Zealand was at COVID-19 Alert level 4, and a National State of Emergency had been declared which was expected to last for a period of 4 weeks commencing 26<sup>th</sup> March 2020.

This extraordinary event placed severe restrictions on the domestic economy, with only those businesses essential to the 'necessities of life' being allowed to operate and a mandatory social lockdown. The Government signaled that the real estate market did not fall into the 'essential' category and therefore the real estate market was effectively frozen during this period. As a result, at 31 March 2020 the property market was not functioning as normal, and the market response to this lockdown is as yet unknown.

This has resulted in valuation reports being prepared on the basis of 'material valuation uncertainty' and noting that less certainty, and a higher degree of caution should be attached to the valuations than would normally be the case. Generally less weight has been able to be given to previous market evidence for comparison purposes and valuers have recommended that valuations should be frequently reviewed, as values may change more rapidly and significantly than has previously been the case. Refer to note 9

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 of New Zealand.

*Major customers*

During the year ended 31 March 2020 and 31 March 2019 no customers individually generated greater than 10% of revenue for the Fund.

*Key metrics*

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

*Geographical location of non-current assets*

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

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**Note 4. Revenue**

Revenue is accounted for in accordance with NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 16 Leases. These standards were adopted by the Fund in the 2019 and 2020 financial years respectively. 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.

	2020 \$	2019 \$
<i>Sales revenue</i>		
Rent from investment properties	5,689,592	3,682,476
Operating expense recoveries – NZ IFRS 16 Leases	1,063,426	541,695
Operating expenses recoveries – NZ IFRS 15 Revenue from contracts with customers	386,916	280,130
	<u>7,139,934</u>	<u>4,504,301</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.



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**Note 5. Specific expenses**

	2020	2019
	\$	\$
Net profit before tax includes the following specific expenses:		
<i>Property operating expenses</i>		
Expenses on investment property that generated rental income	1,564,403	1,281,685
<i>Administrative</i>		
Auditors remuneration – financial statements audit & assurance services	65,800	16,547
Accountants remuneration	8,325	16,625
Consultancy & Legal fees	44,702	75,355
Valuation fees	61,178	15,550
Other Administration costs	48,105	35,488
	<u>228,110</u>	<u>159,565</u>
<i>Net finance expenses</i>		
Interest and finance charges paid/payable	1,384,102	1,066,128
Interest revenue	(6,363)	(4,321)
	<u>1,377,739</u>	<u>1,061,807</u>

**Note 6. Cash and cash equivalents**

	2020	2019
	\$	\$
Cash at bank/(overdraft) – ASB Bank Limited	<u>163,773</u>	<u>(117,412)</u>
	<u>163,773</u>	<u>(117,412)</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**

	2020	2019
	\$	\$
Trade receivables	<u>54,799</u>	<u>132,315</u>
	<u>54,799</u>	<u>132,315</u>
GST receivable	11,516	49,567
Other receivables	<u>5,536</u>	<u>22,687</u>
	<u>71,851</u>	<u>204,569</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 2020 or the year ended 31 March 2019.

*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 2020 or 31 March 2019.

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 2020 or 31 March 2019 balances, due to the loss amount being insignificant. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.

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**Note 8. Other current assets**

	2020	2019
	\$	\$
Lease Adjustments	500,079	222,527
Prepayments	70,757	56,970
Deferred Commission	149,356	125,340
	<u>720,192</u>	<u>404,837</u>

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

**Note 9. Investment properties**

	2020	2019
	\$	\$
Investment properties - at independent valuation	<u>90,300,590</u>	<u>51,252,260</u>
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current financial year are set out below:		
Opening fair value	50,904,393	47,878,461
Acquisition of investment property at cost	29,843,000	12,280,413
Capital additions to investment property at cost	2,890,142	1,868,974
Investment Property sold during the year	-	(12,600,076)
Revaluation increments	6,663,055	2,095,668
Loss on sale of Investment Property	-	(271,180)
	<u>90,300,590</u>	<u>51,252,260</u>
Investment properties at independent valuation	90,300,590	51,252,260
Less Lease adjustments included in current assets	(500,079)	(222,527)
Less Deferred Commission included in current assets	(149,356)	(125,340)
Total Investment Property	<u><u>89,651,155</u></u>	<u><u>50,904,393</u></u>

*Acquisition of investment properties*

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. In the year ended 31 March 2019 the Fund purchased one investment property, 8 Rockridge Road, Penrose, Auckland. 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 2020 the Fund did not sell any investment property. In the year ended 31 March 2019 the Fund sold three investment properties, 117 Willow Street, Tauranga, 1214 Ranolf Street, Rotorua and 22 Amersham Way, Auckland.

*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.

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

As noted in Note 2, valuation reports are noted to have been prepared on the basis of 'material valuation uncertainty' due to the impact of the COVID-19 outbreak. Consequently, less certainty – and a higher degree of caution – should be applied when using valuations than is normally the case, and it is likely that values may change more rapidly and significantly.

It has been noted that the reporting date of 31 March fell within New Zealand's COVID-19 Alert Level 4 lockdown period and severe restrictions were in place within the domestic economy which meant that the real estate market was effectively frozen during this period, as the Government signaled that it did not consider the real estate market fell into the "essential" category. Accordingly, these circumstances contradict the definition of market value which is predicated on willing market participants and proper marketing, elements which did not exist at 31 March 2020. The measures at Alert level 4 were considered to be temporary and expected to be lifted in a relatively short period of time. In order to form a pragmatic view at 31 March, by necessity the Level 4 status was set aside as a short term aberration, and a functioning market was assumed in order to form a Market Value, however it has also been noted that it was not yet known how the market will react following the lockdown, and that in some cases less weight has been able to be given to previous market evidence for comparison purposes.

The impact of these events has been considered by the property valuers in various ways, based on their assessment of the individual property and the impact of the COVID-19 situation. This includes assessing rental relief likely to be provided and the quality and nature of tenants, when forming their opinion of value, which has been issued on a material uncertainty basis as noted above.

*Summary 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>

*Summary 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>

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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
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

Summary of investment properties held at 31 March 2019:

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

Summary of investment properties fair value at 31 March 2019:

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

Key valuation considerations:

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

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

**Fair value measurement**

*Fair value hierarchy*

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

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

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

Level 3: Unobservable inputs for the asset or liability

Investment properties are the only assets carried at fair value, and they are included within level 3 of the fair value hierarchy. They have a carrying value of \$89,651,155 at 31 March 2020 (2019: \$50,904,393).

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

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

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

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

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

*Level 3 assets*

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

Description	Unobservable inputs	2020 Range (weighted average)	2019 Range (weighted average)
Investment properties	Rental yield	5.50% to 7.45% (6.52%)	6.0% to 8.0% (6.96%)
	Rental growth	1.0% to 2.50% (1.80%)	1.5% to 2.25% (1.88%)
	Market capitalisation rate	5.50% to 7.00% (6.37%)	6.0% to 7.5% (6.78%)
	Discount rate	6.25% to 8.50% (7.24%)	6.50% to 9.1% (7.85%)

**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 \$896,512 (2019: \$509,044).

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**Note 10. Trade and other payables**

	2020 \$	2019 \$
Trade payables	682,240	858,061
PIE Tax payable	74,208	4,263
	<u>756,448</u>	<u>862,324</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 2020, interest rate swaps had a notional value of \$40,000,000. Fair value has been determined by ASB Bank Limited.

	2020 \$	2019 \$
Interest rate swaps – ASB Bank Limited	<u>1,262,750</u>	<u>442,484</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 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>

**At 31 March 2019**

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

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. Swap agreements 6 and 7 were entered into prior to balance date, with the trade date of both being February 7 2020. Both agreements become effective 1 July 2020.



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**Note 12. Other current liabilities**

	2020 \$	2019 \$
Accrued expenses	955,293	48,399
Income received in advance	304,713	117,867
	<u>1,260,006</u>	<u>166,266</u>

**Note 13. Borrowings**

	2020 \$	2019 \$
Bank loans	32,215,402	18,480,402
	<u>32,215,402</u>	<u>18,480,402</u>

*Assets pledged as security*

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

*Financing arrangements*

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

	2020 \$	2019 \$
Total facilities		
Bank overdraft	-	250,000
Bank loans	35,274,000	18,480,402
	<u>35,274,000</u>	<u>18,730,402</u>
Used at the reporting date		
Bank overdraft	-	117,412
Bank loans	32,215,402	18,480,402
	<u>32,215,402</u>	<u>18,597,814</u>

There is also a loan facility for \$26,500,000 arranged for property which is due to be settled in June 2020.

**Note 14. Issued units**

	2020 Units	2019 Units	2020 \$	2019 \$
Units - fully paid	46,000,000	28,000,000	48,160,000	28,000,000

**Movements in issued units**

Details	Date	No of units	Issue price	\$
Issue of units	7 December 2016	28,000,000	\$1.00	28,000,000
Unit issue transaction costs, net of tax	7 December 2016	-		(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)
Balance	31 March 2020	<u>46,000,000</u>		<u>46,110,775</u>

*Units*

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

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**Note 14. Issued units (continued)**

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

*Unit buy-back*

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

*Capital risk management*

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

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

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

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

**Note 15. Distributions**

*Distributions*

In the year ending 31 March 2020 a distribution was paid on the 25<sup>th</sup> of each month for 0.75 cents per unit totalling \$287,500 per month except for April 2019 which was 0.625 cents per unit. 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.

Distributions paid in this financial year were as follows:

	<b>2020</b>
	<b>\$</b>
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 0.75 cents per unit	287,500
Distribution paid for period ended 30 June 2019 0.75 cents per unit	287,500
Distribution paid for period ended 31 July 2019 0.75 cents per unit	287,500
Distribution paid for period ended 31 August 2019 0.75 cents per unit	287,500
Distribution paid for period ended 30 September 2019 0.75 cents per unit	287,500
Distribution paid for period ended 31 October 2019 0.75 cents per unit	287,500
Distribution paid for period ended 30 November 2019 0.75 cents per unit	287,500
Distribution paid for period ended 31 December 2019 0.75 cents per unit	287,500
Distribution paid for period ended 31 January 2020 0.75 cents per unit	287,500
Distribution paid for period ended 28 February 2020 0.75 cents per unit	287,500
Distribution paid for period ended 31 March 2020 0.75 cents per unit	287,500
	<u>3,390,000</u>



**PMG Direct Office Fund**  
**Notes to the financial statements**  
**For the year ended 31 March 2020**

**Note 15. Distributions (continued)**

Distributions paid in the previous financial year were as follows:

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

On 31 March 2019 the Directors of the Manager declared a final distribution for the period ended 31 March 2019 of 0.625 cents per unit which was paid on 25 April 2019, a total distribution of \$175,000 based on the number of units on issue as at 31 March 2019. As the Fund is a PIE, income tax will be deducted from this distribution per unit by the Fund at each Investors' respective Prescribed Investor Rate.

*PIE tax deducted at source*

During the financial period, the Fund deducted \$369,016 from distributions made to investors. \$74,208 remains payable at 31 March 2020 and is shown in the statement of financial position. (During the 2019 financial period, the Fund deducted \$101,639 from distributions made to investors. \$4,263 remains payable at 31 March 2019 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.



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

Note 16. Financial instruments (continued)

**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 \$32,215,402, are interest-only payment loans. Monthly cash outlays of approximately \$115,342 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 \$2,154 per annum.

**Credit risk**

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

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

**Liquidity risk**

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

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

*Financing arrangements*

Unused borrowing facilities at the reporting date:

	2020	2019
	\$	\$
Bank Overdraft	-	132,588
Bank loans	3,058,598	-
	<u>3,058,598</u>	<u>132,588</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.

There is also a \$26,500,000 facility arranged that is available for drawdown in June 2020 to purchase new property.



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

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

*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.

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		2,803,911	878,879	32,271,040	-	35,953,830
<b>Derivatives</b>						
Interest Rate Swaps	1.29-2.66%	568,300	520,122	449,129	-	1,537,550
Total derivatives		568,300	520,122	449,129	-	1,537,550
<b>2019</b>						
	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total \$
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-%	858,061	-	-	-	858,061
Other payables	-%	166,266	-	-	-	166,266
Distributions payable	-%	175,000	-	-	-	175,000
<i>Interest-bearing - floating rate</i>						
Bank loans		117,412	-	-	-	117,412
Total non-derivatives	4.21%	780,569	780,569	19,111,092	-	20,672,230
		2,097,308	780,569	19,111,092	-	21,988,969
<b>Derivatives</b>						
Interest Rate Swaps	2.17-2.66%	123,300	115,848	103,585	-	342,733
Total derivatives		123,300	115,848	103,585	-	342,733

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

The 30 day BKBM spot rate as at 31 March has been used to forecast the floating rate cashflows on the loans and swaps.

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

At 31 March 2020 it is estimated that a general increase of 1% in interest rates would have decreased the Funds profit before income tax of \$2,154 (2019: \$4,804). This was calculated by reference to an increase to the floating rate on the loans that do not have derivatives in place.



**PMG Direct Office Fund**  
**Notes to the financial statements**  
**For the year ended 31 March 2020**

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

**Fair values and fair value hierarchy**

Derivative financial instruments are the only liabilities carried at fair value, and they are included within level 2 of the fair value hierarchy. They have a carrying value of \$1,262,750 (2019: \$442,484).

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 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>

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

**Note 17. Contingent liabilities**

There are no contingent liabilities at 31 March 2020. (2019: At Balance Date the Fund had a Contingent Liability to pay PMG Property Funds Management Limited an underwriting fee of \$453,600. This was a fee for PMG Property Funds Management Limited underwriting 13,500,000 units in the equity raise on the 17<sup>th</sup> of April 2019. The underwriting fee is due for payment on the 17<sup>th</sup> of April 2019).



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

**Note 18. Commitments**

	2020	2019
	\$	\$
<b>Capital commitments</b>		
Committed at the reporting date but not recognised as liabilities:		
Investment properties	500,000	29,843,000

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

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

**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:*

	2020	2019
	\$	\$
<b>Payment for goods and services:</b>		
Payment of Property Fund and management fees to the Manager	539,533	354,258
Payment of Project Management fees to the Manager	131,952	79,190
Payment of Performance fees to the Manager	903,426	18,591
Payment of Commission to the Manager for the sale or acquisition of property	298,430	249,500
Payment of Equity Raise Costs to the Manager	35,491	-
Payment of Brokerage/Underwriting Fee	856,800	-
Payment of Supervisor fees to the Supervisor	20,096	21,614
Payment of services to Forsite Limited (Manager-related entity, Scott McKenzie is a Director of the Manager)	8,300	7,800
<b>Income was received by the Fund for</b>		
Rent paid by the Manager for office in 5 Short Street, Newmarket and 143 Durham Street, Tauranga	133,367	62,177
<b>Investments in the Fund:</b>		
Units held by D & S McMahon Family Trust (Manager-related entity, Denis McMahon, is a Director of the Manager)	200,000	200,000
Distribution made to D & S McMahon Family Trust	15,000	14,997
Units held by PMG Property Funds Management Limited (Manager)	-	-
Distributions made to the Manager	-	937

During the year PMG Direct Office Fund purchased 410 Victoria Street, Hamilton from PMG Capital Fund Limited. PMG Capital Fund Limited has common Directors as the Manager. The Purchase Amount was \$8,100,000 and was determined by independent valuation. The deposit fee paid for the property was \$55,639 and the rent received was \$69,908.

PMG Direct Office Fund have 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**  
**Notes to the financial statements**  
**For the year ended 31 March 2020**

**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:

	2020	2019
	\$	\$
Current payables:		
Trade payables to the Manager	79,776	208,610
Performance Fee payable to the Manager	903,426	18,591
Trade payables to the Supervisor	5,805	10,925
Distribution payable to Denis McMahon Family Trust	1,250	1,250

*Loans to/from related parties*

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

*Terms and conditions*

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

**Note 20. Lessor Operating Lease**

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

	2020	2019
	\$	\$
Not later than one year	5,607,905	3,304,639
Later than one year and not later than two years	4,886,045	2,691,422
Later than two years and not later than three years	3,710,773	2,047,819
Later than three years and not later than four years	3,138,031	1,132,865
Later than four years and not later than five years	2,894,986	906,007
Later than five years	5,733,512	1,114,002
	-----	-----
Total Lease payments receivable	25,971,252	11,196,754

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

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

The Fund intends to put an offer to the market on 22 May 2020, this is to raise funds to purchase 213 Tuam Street, Christchurch. The Fund does not have a capital commitment to purchase this property at balance date as the contract is currently with the Manager and will be assigned prior to settlement.

The return to investors will drop to 6.5 cents per unit from 1 June 2020. This is due to the Fund anticipating the impact of the current economic environment on the Fund's return to investors.

The Fund has agreed Rent relief of approximately \$296,000 to help tenants due to the COVID 19 outbreak to-date.



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

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

	2020	2019
	\$	\$
Profit after income tax expense for the year	7,702,235	2,730,757
Adjustments for non cash items:		
Net fair value movement on investment properties	(6,013,620)	(1,747,801)
Net fair value movement on derivative financial instruments	820,266	357,861
Adjustments for items classified as investing activities:		
Loss on sale of investment property	-	271,180
<b>Change in operating assets and liabilities:</b>		
Decrease in trade and other receivables	94,667	(96,884)
Increase in prepayments	(13,787)	(45,450)
Decrease in trade and other payables	(105,877)	212,288
Increase in accrued expenses	906,894	(364,557)
Increase in lease adjustments	(277,552)	(149,665)
Increase in deferred expenses	(24,016)	(33,767)
Increase in Income received in advance	186,846	61,366
Decrease in GST receivable	38,051	(31,374)
<b>Net cash inflow/(outflow) from operating activities</b>	<u>3,314,107</u>	<u>1,163,954</u>

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

A comparison to the prospective financial statements, as issued in the Product Disclosure Statement (PDS) issued 11 March 2019, has been provided below. The key differences between actuals and the product disclosure statement are noted below:

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

- Borrowings were less due to more accounts payable at balance date than projected and less accounts receivable than projected.
- Derivative Financial Instruments were higher than projected due to decreased interest rates and new swaps being taken out
- 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 Operating costs were higher than forecast.

**Statement of Cash Flows**

- Increased receipts from tenants.
- Increased payments to suppliers.
- Higher than forecast inflow from borrowings.
- Decreased unit issue transaction costs due to timing of raise (some was in previous year).

PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

Note 23. Comparison to prospective financial statements continued

Statement of Financial Position

		2020		
	Note	Actual \$	Prospective	Variation
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	163,773	40,800	122,973
Trade and other receivables	7	71,851	129,300	(57,449)
Other current assets	8	720,192	534,431	185,761
<b>Total current assets</b>		<u>955,816</u>	<u>704,531</u>	<u>251,285</u>
<b>Non-current assets</b>				
Investment properties	9	89,651,155	83,170,093	6,481,062
<b>Total non-current assets</b>		<u>89,651,155</u>	<u>83,170,093</u>	<u>6,481,062</u>
<b>Total assets</b>		<u>90,606,971</u>	<u>83,874,624</u>	<u>6,732,347</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings - bank overdraft	6	-	-	-
Trade and other payables	10	682,240	382,846	299,394
PIE Tax Payable	10	74,208	-	74,208
Derivative financial instruments	11	1,262,750	175,352	1,087,398
Distributions payable	15	287,500	287,500	-
Other current liabilities	12	1,260,006	68,100	1,191,906
<b>Total current liabilities</b>		<u>3,566,704</u>	<u>913,798</u>	<u>2,652,906</u>
<b>Non-current liabilities</b>				
Borrowings	13	32,215,402	32,705,402	(490,000)
<b>Total non-current liabilities</b>		<u>32,215,402</u>	<u>32,705,402</u>	<u>(490,000)</u>
<b>Total liabilities</b>		<u>35,782,106</u>	<u>33,619,200</u>	<u>2,162,906</u>
<b>Net assets</b>		<u>54,824,865</u>	<u>50,255,424</u>	<u>4,569,441</u>
<b>Equity</b>				
Issued units	14	46,110,775	45,876,233	234,542
Retained earnings		8,714,090	4,379,191	4,334,899
<b>Total equity</b>		<u>54,824,865</u>	<u>50,255,424</u>	<u>4,569,441</u>

PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

Note 23. Comparison to prospective financial statements continued

Statement of Profit or Loss and Other Comprehensive Income

2020				
	Note	Actual \$	Prospective \$	Variation \$
<b>Revenue</b>	4	7,139,934	6,989,749	150,185
<b>Expenses</b>				
Property operating expenses	5	1,564,403	1,320,468	243,935
Property and Fund management fees		539,533	548,132	(8,599)
Property and Fund Management performance fee		903,426	-	903,426
Supervisor fees		20,096	20,000	96
Administrative	5	228,110	248,592	(20,482)
<b>Operating profit</b>		3,884,367	4,852,557	(968,190)
Net Finance expenses	5	1,377,739	1,481,770	(104,031)
Dividends Received		2,253	-	2,253
Net fair value gain on investment properties	9	6,013,620	-	6,013,620
Net loss on disposal of investment property	9	-	-	-
Fair value movement on derivative financial instruments		(820,266)	-	(820,266)
<b>Net profit</b>		<u>7,702,235</u>	<u>3,370,787</u>	<u>4,331,448</u>
Other Comprehensive Income		-	-	-
<b>Total comprehensive income</b>		<u>7,702,235</u>	<u>3,370,787</u>	<u>4,331,448</u>



PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

Note 23. Comparison to prospective financial statements continued

Statement of Changes in Equity

	Issued Units	Retained earnings	Total equity
2020	\$	\$	\$
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>
2019	\$	\$	\$
Balance at 1 April 2018	27,088,989	3,771,099	30,860,088
Net profit for the year and total comprehensive income		2,730,757	2,730,757
Transactions with investors in their capacity as investors:			
Units issued during the year	-	-	-
Issue costs	(220,934)	-	(220,934)
Distributions to investors (note 15)		(2,100,000)	(2,100,000)
<b>Balance at 31 March 2019</b>	<b>26,868,055</b>	<b>4,401,856</b>	<b>31,269,911</b>
Prospective 2020	\$	\$	\$
Opening Equity	27,088,540	4,394,654	31,483,194
Net profit for the year and total comprehensive income	-	3,370,787	3,370,787
Transactions with investors in their capacity as investors:			
Units issued during the year	20,160,000	-	20,160,000
Issue costs	(1,372,307)	-	(1,372,307)
Distributions to investors (note 15)	-	(3,386,250)	(3,386,250)
<b>Balance at 31 March 2020</b>	<b>45,876,233</b>	<b>4,379,191</b>	<b>50,255,424</b>

PMG Direct Office Fund  
Notes to the financial statements  
For the year ended 31 March 2020

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

**Statement of Cash Flows**

	Note	2020 \$	Prospective \$	Variation \$
<b>Cash flows from operating activities</b>				
Cash was provided from:				
Receipts from customers		6,957,049	6,805,018	152,031
Dividend Income		2,253	-	2,253
Interest income		6,363	-	6,363
Cash was applied to:				
Payments to suppliers		(2,275,067)	(2,072,977)	(202,090)
Interest and other finance costs paid		(1,414,542)	(1,481,770)	67,228
GST received/(paid)		38,051	43,486	(5,435)
Net cash inflow/(outflow) from operating activities	22	3,314,107	3,293,757	20,350
<b>Cash flows from investing activities</b>				
Cash was provided from:				
Sale of investment properties		-	-	-
Cash was applied to:				
Purchase of investment property and capital expenditure		(32,733,142)	(32,170,093)	(563,049)
Net cash inflow/(outflow) from investing activities		(32,733,142)	(32,170,093)	(563,049)
<b>Cash flows from financing activities</b>				
Cash was provided from:				
Proceeds from issue of share capital		20,160,000	20,160,000	-
Proceeds from borrowings		13,735,000	12,833,000	902,000
Cash was applied to:				
Term Loan repaid		-	-	-
Unit issue transaction costs		(917,280)	(1,372,307)	455,027
Distributions to investors	15	(3,277,500)	(3,273,750)	(3,750)
Net cash inflow/(outflow) from financing activities		29,700,220	28,346,943	1,353,277
Net increase in cash and cash equivalents		281,185	(529,393)	810,578
Cash and cash equivalents at the start of the financial period		(117,412)	570,193	-
Cash and cash equivalents at the end of the financial period	6	163,773	40,800	810,578

## 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 33, which comprise the statement of financial position as at 31 March 2020, 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 2020, 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').

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 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 7 investment properties situated throughout the North Island. The market value of the properties as at 31 March 2020 was \$90.3m 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 2020. 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>In addition, due to the timing of the Novel Coronavirus (COVID-19) pandemic and the fact that New Zealand was at Alert level 4 and a National State of Emergency had been declared, the future impact on the property market was unknown at balance date. As such the</p>	<p>Our procedures in relation to management's valuation of investment properties amongst others included:</p> <p>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 Fair Value Measurement and were suitable for determining the carrying value of the investment property as at 31 March 2020.</p> <p>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;</p> <p>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;</p> <p>On a sample basis, reviewing the accuracy and relevance of the input data used, and assessing its consistency with information obtained during the audit, including the likely short term impact on rents of the rent relief provided due to COVID-19;</p> <p>Evaluating the disclosures relating to the investment property valuations included in Note 9 of the financial statements, including the disclosure of the material uncertainty basis of valuation. We obtained confirmation from the valuers that reliance could be placed on the valuations as at 31 March 2020 for audit purposes.</p>



Key Audit Matter	How our audit addressed the key audit matter
<p>valuations were issued on a material uncertainty basis.</p> <p>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.</p>	

### Emphasis of Matter

As disclosed in Note 9, property valuations have been issued on a material uncertainty basis, as there was no evidence available to assess the future impact of the COVID-19 pandemic and the lockdown on the property market. As such the valuers recommended that less certainty and a higher degree of caution should be attached to the property values than is normally the case, and that valuations should be frequently reviewed as values may change more rapidly and significantly than has previously been the case. Our opinion is not modified in this respect.

### Other Matter

We note that we were appointed as auditors of the Fund commencing for the year ended 31 March 2020, and the comparatives shown for the year ended 31 March 2019 were audited by another auditor who issued an unmodified opinion on those financial statements on 24 June 2019. Our opinion is not modified in this respect.

### 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**

15 May 2020

