

PMG Direct Childcare Fund
Financial Statements
For the year ended 31 March 2024

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Financial Statements
For the year ended 31 March 2024

Contents

	Page
Directory	2
Statement of Comprehensive Income	3
Statement of Changes in Equity	4
Statement of Financial Position	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 – 19
Audit Report	20 – 22

PMG Direct Childcare Fund

Directory

As at 31 March 2024

Manager	PMG Property Funds Management Limited Level 1, 143 Durham Street Tauranga
Directors of the Manager	Nigel Lowe Scott C McKenzie Wayne Beilby James Beale (appointed 19 August 2022) Denis McMahon (retired 31 December 2022)
Custodian	PMG Direct Childcare Fund Trustees Limited
Trustee	Covenant Trustee Services Limited Level 6, 191 Queen Street Auckland 1010
Auditors	KPMG Level 2, 247 Cameron Road Tauranga
Solicitors	Cooney Lees Morgan Level 3, 247 Cameron Road Tauranga Dentons Kensington Swan Level 4, 40 Bowen Street Wellington 6011
Bankers	ASB Business Banking 518 Cameron Road Tauranga Branch
IRD Number	123-523-075

PMG Direct Childcare Fund

Statement of Comprehensive Income

For the year ended 31 March 2024

		2024	2023	2024
	Note	Actual	Actual	Product Disclosure Statement
		\$	\$	\$
Revenue				
Revenue - rental income from property leases	4	3,113,648	3,077,641	3,349,000
Property operating expenses recovered		499,746	420,706	452,000
Insurance Proceeds		13,579	36,662	-
Total Revenue		<u>3,626,973</u>	<u>3,535,009</u>	<u>3,801,000</u>
Less expenses				
Audit of financial statements - KPMG		(25,200)	(29,050)	(25,000)
Administration fees		(78,703)	(120,153)	(203,000)
Property operating expenses		(606,898)	(540,787)	(454,000)
Property and Fund Management fees	13	(244,784)	(232,596)	(259,000)
Supervisor fees		(20,865)	(20,710)	(23,000)
Total expenses		<u>(976,450)</u>	<u>(922,586)</u>	<u>(964,000)</u>
Operating profit/(loss) before net finance costs and investment property fair value movements		2,650,523	2,612,423	2,837,000
Interest Received	5	71	32,297	-
Finance Expenses	5	(709,050)	(655,646)	(377,000)
Increase/(decrease) in fair value of derivatives	5	(238,389)	(47,635)	-
Net finance costs		<u>(947,368)</u>	<u>(670,984)</u>	<u>(377,000)</u>
Increase/(decrease) in fair value of investment property	11(b)	(549,024)	(4,999,384)	-
Realised gain/(loss) on disposal of investment property	11(b)	-	(170,098)	-
Net profit/(loss) for the year		<u>1,154,131</u>	<u>(3,228,043)</u>	<u>2,460,000</u>
Other comprehensive income		-	-	-
Total comprehensive income/(loss) for the year		<u><u>1,154,131</u></u>	<u><u>(3,228,043)</u></u>	<u><u>2,460,000</u></u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying Notes and Audit Report.



PMG Direct Childcare Fund

Statement of Changes in Equity For the year ended 31 March 2024

	Note	Share Capital \$	Retained Earnings \$	Total Equity \$
2024				
Opening Balance at 1 April 2023		42,006,818	(615,224)	41,391,594
Net profit/(loss) for the year and total comprehensive income			1,154,131	1,154,131
<i>Transactions with investors in their capacity as investors:</i>				
Distributions paid to investors			(1,833,000)	(1,833,000)
Balance at 31 March 2024		42,006,818	(1,294,093)	40,712,725

	Note	Share Capital \$	Retained Earnings \$	Total Equity \$
2023				
Opening Balance at 1 April 2022		27,276,882	4,578,822	31,855,704
Net profit/(loss) for the year and total comprehensive income			(3,228,043)	(3,228,043)
<i>Transactions with investors in their capacity as investors:</i>				
Units issued during the year	10	15,444,000		15,444,000
Issue costs		(714,064)		(714,064)
Distributions paid to investors			(1,966,003)	(1,966,003)
Balance at 31 March 2023		42,006,818	(615,224)	41,391,594

2024 Product Disclosure Statement

	Share Capital \$	Retained Earnings \$	Total Equity \$
2024			
Opening Balance at 1 April 2023	43,906,000	2,876,000	46,782,000
Net profit for the year and total comprehensive income		2,460,000	2,460,000
<i>Transactions with investors in their capacity as investors:</i>			
Distributions paid to investors		(2,652,000)	(2,652,000)
Balance at 31 March 2024	43,906,000	2,684,000	46,590,000



PMG Direct Childcare Fund

Statement of Financial Position

As at 31 March 2024

		2024	2023	2024
	Note	Actual	Actual	Product
		\$	\$	Disclosure
				Statement
				\$
Assets				
Current assets				
Cash and cash equivalents	1	315,511	610,290	99,000
Trade and other receivables	2	62,638	49,147	44,000
Prepayments		75,699	63,265	19,000
Derivative Financial Instruments	12 (e)	177,122	415,511	502,000
Total current assets		630,970	1,138,213	664,000
Non-current assets				
Investment Property	11	54,847,365	50,354,988	53,782,000
Lease incentives not yet amortised	11	902,635	620,012	947,000
Total non-current assets		55,750,000	50,975,000	54,729,000
Total assets		56,380,970	52,113,213	55,393,000
Liabilities				
Current liabilities				
Trade and other payables	3	441,245	664,619	356,000
Total current liabilities		441,245	664,619	356,000
Non-current liabilities				
Borrowings	7	15,227,000	10,057,000	8,447,000
Total non-current liabilities		15,227,000	10,057,000	8,447,000
Total liabilities		15,668,245	10,721,619	8,803,000
Net assets		40,712,725	41,391,594	46,590,000
Equity				
Issued Units	10	42,006,818	42,006,818	43,906,000
Retained earnings		(1,294,093)	(615,224)	2,684,000
Total equity		40,712,725	41,391,594	46,590,000



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

29 May 2024

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



PMG Direct Childcare Fund

Statement of Cash Flows

For the year ended 31 March 2024

		2024	2023	2024 Product Disclosure Statement
	Note	Actual \$	Actual \$	\$
Cash flows from operating activities				
Cash was provided from:				
Receipts from tenants		3,368,679	3,582,574	3,698,000
Net GST recovered		-	-	3,000
Total cash received		<u>3,368,679</u>	<u>3,582,574</u>	<u>3,701,000</u>
Cash was applied to:				
Payments to suppliers		(1,197,203)	(923,601)	(964,000)
Interest and other finance costs paid		(709,050)	(663,674)	(377,000)
Total cash applied		<u>(1,906,253)</u>	<u>(1,587,275)</u>	<u>(1,341,000)</u>
Net cash inflow/(outflow) from operating activities	15	<u>1,462,426</u>	<u>1,995,299</u>	<u>2,360,000</u>
Cash flows from investing activities				
Cash was provided from:				
Interest received		71	32,297	-
Disposal of investment property		-	5,000,000	-
Total cash received		<u>71</u>	<u>5,032,297</u>	<u>-</u>
Cash was applied to:				
Purchase of investment properties & capital expenditure		(5,041,401)	(12,350,936)	(68,000)
Total cash applied		<u>(5,041,401)</u>	<u>(12,350,936)</u>	<u>(68,000)</u>
Net cash inflow/(outflow) from investing activities		<u>(5,041,330)</u>	<u>(7,318,639)</u>	<u>(68,000)</u>
Cash flows from financing activities				
Cash was provided from:				
Proceeds from issue of units		-	15,444,000	-
Proceeds from borrowings		5,170,000	-	300,000
Total cash received		<u>5,170,000</u>	<u>15,444,000</u>	<u>300,000</u>
Cash was applied to:				
Repayment of borrowings		-	(7,157,000)	-
Unit issue costs		-	(714,064)	-
Distributions paid to Investors		(1,885,875)	(1,894,503)	(2,652,000)
Total cash applied		<u>(1,885,875)</u>	<u>(9,765,567)</u>	<u>(2,652,000)</u>
Net cash inflow/(outflow) from financing activities		<u>3,284,125</u>	<u>5,678,433</u>	<u>(2,352,000)</u>
Net increase in cash and cash equivalents		(294,779)	355,093	(60,000)
Cash and cash equivalents at beginning of period		610,290	255,197	159,000
Cash and cash equivalents at end of period	1	<u>315,511</u>	<u>610,290</u>	<u>99,000</u>

The above Statement of Cashflows should be read in conjunction with the accompanying Notes and Audit Report.



PMG Direct Childcare Fund

Notes to the Financial Statements

For the year ended 31 March 2024

Reporting Entity

PMG Direct Childcare Fund ('the Fund') is a Managed Investment Scheme domiciled in New Zealand. The Fund is managed by PMG Property Funds Management Limited ('the Manager'). The Early Childhood Education (ECE) centres in the Fund will be held on trust for the fund by PMG Direct Childcare Fund Trustees Limited ('the Custodian'), a wholly-owned subsidiary of Covenant Trustee Services Limited ('the Trustee'). The Custodian and the Trustee are independent from the Manager.

The nature of the Fund's business is a managed investment scheme open to investors. It is focused on generating value for investors through the procurement, construction and growth of a portfolio of ECE centres with a long-term investment horizon. PMG Direct Childcare Fund will be underpinned by experienced childcare operators on long-term lease contracts.

Basis of Preparation

A. Statement of Compliance

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 Fund is required to report under Tier 1 as the Fund is a FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013. The Fund's financial statements comply with this Act and the Financial Reporting Act 2013.

The financial statements were authorised for issue by the Directors of the Manager on 29 May 2024.

As required by FRS-42 – Prospective Financial Statements, the prospective financial information provided in the Product Disclosure Statement of the Fund, issued 26 October 2022, 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 14.

B. Basis of Measurement

The financial statements have been prepared on going concern assumption and the historical cost basis except for investment properties and derivative financial assets which have been measured at fair value.

C. Functional and Presentation currency

The financial statements are presented in New Zealand dollars, which is the Fund's functional currency, and are rounded to the nearest whole dollar.

D. Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 11 - Investment Property.

PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

Basis of Preparation (continued)

E. New, revised or amended Accounting Standards and Interpretations adopted

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

Any new, revised or amended 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.

1. Cash and cash equivalents

	2024 \$	2023 \$
ASB Bank Cheque Accounts	315,511	431,090
Solicitor Trust Account	-	179,200
	-----	-----
Total	315,511	610,290

Cash and cash equivalents includes cash on hand, deposits held on call with banks, 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, and bank overdrafts. Cash and cash equivalents are classified as loans and receivables.

2. Trade and Other Receivables

	2024 \$	2023 \$
Trade Receivable	62,638	49,147
	-----	-----
Total Trade and Other Receivables	62,638	49,147

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

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

3. Trade and other payables

	2024 \$	2023 \$
Trade Payables	120,603	97,233
Accrued Expenses	93,635	306,229
Distributions Payable	158,625	211,500
Income in advance	33,097	21,759
GST Payable	35,285	27,898
	-----	-----
Total Trade and Other Payables	441,245	664,619

These amounts represent unsecured liabilities for goods and services provided to the Fund prior to the end of the financial period which are usually paid within 30 days of recognition. The carrying amounts of Trade and other payables are assumed to be the same as their fair values, due to their short term nature. Trade and other payables are classified as financial liabilities measured at amortised cost.



PMG Direct Childcare Fund

Notes to the Financial Statements

For the year ended 31 March 2024

4. Revenue

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

Rental income from the investment properties held by the Fund is recognised in income on a straight-line basis over the lease term. Lease incentives provided in relation to letting the investment property are amortised on a straight-line basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income. The net amount of the lease incentives not fully amortised are included in the statement of financial position under 'Lease Incentives not yet amortised'.

The rent revenue 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 IFRS 15 – *Revenue from Contracts with Customers*.

Operating Expenses recoveries – The tenants also pay the Fund their share of Property Operating Costs. These are recoveries of expenses incurred by the Fund in relation to the property. The tenants are charged a monthly amount towards these operating costs based on an annual budget for the property and have an annual wash up reconciliation to settle any under or overcharges of actual costs incurred versus costs recharged. Property Operating Cost recoveries are recognised when invoiced on a monthly basis which is in line with when the Fund meets the performance obligations of the services provided. The operating expenditure 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 straight-line basis.

The operating expenses recovered have been identified as being under the scope of NZIFRS 15 – *Revenue from Contracts with Customers*. 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. They are recognised over time as the services are provided.

5. Net Finance costs

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.

Finance expenses comprise interest expense on borrowings and bank fees incurred and fair value movements of derivatives.

Derivatives - An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

6. Income tax expense

The Fund elected to be a Portfolio Investment Entity ('PIE') under the Income Tax Act 2007. As a result, the Fund itself is not liable for income tax.

The Fund's taxable income is instead apportioned amongst its Investor's based on the number of units they hold and their Prescribed Investor Rates ("PIR"). The Fund calculates and deducts tax based on each investor's PIR and pays the tax to the Inland Revenue Department on behalf of the investor. The PIE tax liabilities, at the end of the year, are included within distributions payable in the Statement of Financial Position.

PIE tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the Inland Revenue Department on behalf of the investors based on the investors' current period's taxable income and their PIR.

PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

7. Loans and Borrowings

	2024	2023
	\$	\$
ASB Bank Loan	8,497,000	8,327,000
ASB Bank Loan	1,730,000	1,730,000
ASB Bank Loan	5,000,000	-
Total Loans and Borrowings	15,227,000	10,057,000
This is represented by:		
Current	-	-
Non-current	15,227,000	10,057,000
	15,227,000	10,057,000

The ASB Bank Loan has a general security deed over PMG Direct Childcare Fund Trustees Limited and a registered mortgage over the land and buildings of 145 Hibiscus Coast Highway, Auckland, 173 Bill Richardson Drive, Invercargill, 14 Learner Road, Rolleston, 17 Catherine McLean Road, Auckland, 25 Spitfire Drive, Blenheim, 130 Pinecrest Drive, Gulf Harbour, Auckland, 58 Ormiston Road, Flat Bush, Auckland, 6-8 Merfield Road, Glen Innes, Auckland, 70 Ward Street, Upper Hutt and 30 Tuhikaramea Road, Dinsdale, Hamilton.

The ASB Loans are on an interest only basis. The current interest rate at 31 March 2024 was 8.14% on the \$8,497,000 loan and the \$1,730,000 loan and they have maturity dates of 28 May 2025. The current interest rate at 31 March 2024 was 8.24% on the \$5,000,000 loan and it has a maturity date of 30 October 2026.

8. Goods and Services Tax (GST)

All amounts are shown exclusive of Goods and Service Tax (GST), except for receivables and payables that are stated inclusive of GST.

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.

9 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.

The Fund is the Lessor of investment property. The Fund only enters into leases in which it retains substantially all the risks and benefits of ownership of the leased asset. These leases are classified as operating leases. Assets leased to third parties under operating leases are included in investment property in the Statement of Financial Position.

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

	2024	2023
	\$	\$
Not later than one year	3,695,181	2,781,776
Later than one year and not later than two years	3,607,736	2,711,050
Later than two years and not later than three years	3,461,569	2,691,536
Later than three years and not later than four years	3,417,194	2,669,149
Later than four years and not later than five years	3,390,655	2,652,767
Later than five years	21,994,165	17,512,289
Total lease receivable	39,566,500	31,018,567



PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

9 Leases (continued)

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

The lease agreements held over the Investment Properties are summarised as follows:

Tenant	Term	Start Date	Renewal or Expiry Date	Annual Rental
Best Start Educare Ltd	20 years	6 June 2019	5 June 2039	\$320,885
Blue Duck Childcare Ltd	15 years	1 February 2024	31 January 2039	\$84,240
Conscious Education	15 years	1 February 2023	31 January 2038	\$269,100
Education Hub Ltd	15 years	8 December 2018	7 December 2033	\$400,636
GMG Trust	15 years	27 October 2020	26 October 2035	\$405,438
Gulf Harbour Montessori	15 years	9 October 2023	8 October 2038	\$313,950
JN & KN Ventures Ltd	10 years	1 November 2021	31 October 2031	\$165,000
Little Learners Dinsdale	10 years	1 March 2022	29 February 2032	\$268,697
Nurture Early Learning	15 years	1 March 2019	28 February 2034	\$346,500
Omaka ELC Ltd	15 years	29 April 2019	28 April 2034	\$256,526
PEG1 Limited	14 years	1 November 2020	30 September 2034	\$397,201
Walkaway Investments Ltd	Monthly	11 March 2024		\$11,440
Wild and Love Limited	20 years	10 March 2021	7 August 2041	\$224,640

10. Issued Units

Issued units 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 the issue of those units.

Issued Units	2024	2023
Issued units Authorised and issued at 31 March	42,300,000	42,300,000

PMG Direct Childcare Capital Fund equity includes issued units and retained earnings. All issued units are fully paid.

Movements in Issued Units	2024	2023
Opening balance	42,300,000	28,000,000
Unit Issue	-	14,300,000
Closing Balance	42,300,000	42,300,000

Each unit confers an equal interest in the Fund and ranks equally in all respects with any other units issued in the Fund. Each unit confers an equal right to distributions authorised by the Manager, and to cast votes at meetings of Unitholders, in accordance with the Trust Deed.

11. Investment property

a) Accounting policy

Investment properties are initially recorded at cost and will then be revalued annually and stated in the accounts at their fair value based on the latest valuation in compliance with NZ IFRS 13 - *Fair Value Measurement*. Fair Value is based on independent valuation.

Any gain or loss determined by these revaluations is included in the Statement of Comprehensive Income. When an item of investment property is disposed of, any gain or loss is recognised in the Statement of Comprehensive Income and is calculated as the difference between the Fair Value and the carrying value of the item. Depreciation is not charged on investment properties.



PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

11. Investment property (continued)

If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier).

Valuation amounts are adjusted for lease inducements in order to ensure these are not double counted.

b) Investment Property held by the Fund at 31 March 2024 is:

a) Investment Property held by the Fund at 31 March 2024 is:							
	145 Hibiscus Coast Highway Orewa	14 Learners Road Rolleston	173 Bill Richardson Invercargill	25 Spitfire Drive Blenheim	58 Ormiston Road Flatbush, Auckland	17 Catherine McLe Road, Pukekohe	
Valuation at 31 March 2023	\$ 4,850,000	\$ 5,750,000	\$ 2,850,000	\$ 3,600,000	\$ 7,225,000	\$ 4,200,000	
Additions	\$ 1,000	\$ 2,752	\$ 206,461	\$ -	\$ 36,344	\$ -	
Movement in Lease Inducements	\$ (7,571)	\$ 40,647	\$ 12,549	\$ (8,184)	\$ 18,399	\$ 28,567	
Fair Value Movement	\$ 6,571	\$ (143,399)	\$ (69,010)	\$ 208,184	\$ 720,257	\$ (528,567)	
Valuation at 31 March 2024	\$ 4,850,000	\$ 5,650,000	\$ 3,000,000	\$ 3,800,000	\$ 8,000,000	\$ 3,700,000	
Less Lease Inducements	\$ (101,209)	\$ (153,945)	\$ (12,549)	\$ (78,227)	\$ (87,133)	\$ (86,970)	
Fair Value at 31 March 2024	\$ 4,748,791	\$ 5,496,055	\$ 2,987,451	\$ 3,721,773	\$ 7,912,867	\$ 3,613,030	

	130 Pinecrest Drive Gulf Harbour	6-8 Merfield Road Glen Innes	70 Ward Street Upper Hutt	30 Tuhikaramea Road Dinsdale	15 Castlepoint Drive Takanini	Total
Valuation at 31 March 2023	\$ 4,825,000	\$ 6,175,000	\$ 5,000,000	\$ 6,500,000	\$ -	\$ 50,975,000
Purchase price	\$ -	\$ -	\$ -	\$ -	\$ 4,600,000	\$ 4,600,000
Capitalisation of Expenses	\$ -	\$ -	\$ -	\$ -	\$ 129,373	\$ 129,373
Additions	\$ 8,165	\$ 3,795	\$ 42,341	\$ 11,172	\$ -	\$ 312,030
Movement in Lease Inducements	\$ 91,222	\$ 40,672	\$ 40,404	\$ 12,950	\$ 12,968	\$ 282,623
Fair Value Movement	\$ (24,387)	\$ (269,467)	\$ (382,745)	\$ (124,122)	\$ 57,659	\$ (649,026)
Valuation at 31 March 2024	\$ 4,900,000	\$ 5,950,000	\$ 4,700,000	\$ 6,400,000	\$ 4,800,000	\$ 55,750,000
Less Lease Inducements	\$ (91,222)	\$ (172,300)	\$ (62,082)	\$ (44,030)	\$ (12,968)	\$ (902,835)
Fair Value at 31 March 2024	\$ 4,808,778	\$ 5,777,700	\$ 4,637,918	\$ 6,355,970	\$ 4,787,032	\$ 54,847,365

Investment Property held by the Fund at 31 March 2023 was:

a) Investment Property held by the Fund at 31 March 2023 is:							
	145 Hibiscus Coast Highway Orewa	14 Learners Road Rolleston	173 Bill Richardson Invercargill	25 Spitfire Drive Blenheim	14-18 Shakespeare Ave, Hamilton	58 Ormiston Road Flatbush, Auckland	
Valuation at 31 March 2022	\$ 5,350,000	\$ 6,425,000	\$ 3,475,000	\$ 3,875,000	\$ 5,000,000	\$ 8,250,000	
Transfer from Work in Progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Additions and Costs of Sale	\$ 6,910	\$ -	\$ -	\$ -	\$ 170,098	\$ 96,777	
Disposals	\$ -	\$ -	\$ -	\$ -	\$ (5,000,000)	\$ -	
Movement in Lease Inducements	\$ (5,182)	\$ (8,301)	\$ (34,132)	\$ 5,441	\$ (59,667)	\$ 16,900	
Fair Value Movement	\$ (501,728)	\$ (666,699)	\$ (590,868)	\$ (280,441)	\$ (110,431)	\$ (1,138,677)	
Valuation at 31 March 2023	\$ 4,850,000	\$ 5,750,000	\$ 2,850,000	\$ 3,600,000	\$ -	\$ 7,225,000	
Less Lease Inducements	\$ (108,780)	\$ (113,298)	\$ -	\$ (86,411)	\$ -	\$ (68,734)	
Fair Value at 31 March 2023	\$ 4,741,220	\$ 5,636,702	\$ 2,850,000	\$ 3,513,589	\$ -	\$ 7,156,266	

	17 Catherine McLe Road, Pukekohe	130 Pinecrest Drive Gulf Harbour	6-8 Merfield Road Glen Innes	70 Ward Street Upper Hutt	30 Tuhikaramea Road Dinsdale	Total
Valuation at 31 March 2022	\$ 4,275,000	\$ 5,600,000	\$ 6,625,000	\$ -	\$ -	\$ 48,875,000
Capitalisation of Expenses	\$ -	\$ -	\$ -	\$ 140,257	\$ 137,440	\$ 277,697
Additions	\$ -	\$ -	\$ -	\$ 5,018,000	\$ 6,700,000	\$ 11,991,785
Disposals	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,000,000)
Movement in Lease Inducements	\$ 298	\$ (82,917)	\$ 46,572	\$ 21,678	\$ 31,080	\$ (68,230)
Fair Value Movement	\$ (75,298)	\$ (692,083)	\$ (496,572)	\$ (179,935)	\$ (368,520)	\$ (5,101,252)
Valuation at 31 March 2023	\$ 4,200,000	\$ 4,825,000	\$ 6,175,000	\$ 5,000,000	\$ 6,500,000	\$ 50,975,000
Less Lease Inducements	\$ (58,403)	\$ -	\$ (131,628)	\$ (21,678)	\$ (31,080)	\$ (620,012)
Fair Value at 31 March 2023	\$ 4,141,597	\$ 4,825,000	\$ 6,043,372	\$ 4,978,322	\$ 6,468,920	\$ 50,354,988

c) 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.



PMG Direct Childcare Fund

Notes to the Financial Statements

For the year ended 31 March 2024

11. Investment property (continued)

c) Fair value measurement continued

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 \$54,847,365 at 31 March 2024 (2023: \$50,354,988).

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 in note 11 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.

The Properties were each valued by Jones Lang LaSalle Valuation & Advisory Services. They used the Income Capitalisation Approach and the Discounted Cash Flow Approach. Valuation details for each Investment Property and key level 3 unobservable inputs and the valuation sensitivity for each are set out below:

	Valuation Ranges	Capitalisation Rate	Terminal Yield	Discount Rate	Growth Forecast (cpi)
145 Hibiscus Coast Highway	\$4,800,000 to \$4,900,000	6.00%	6.13%	7.25%	2.15%
14 Learners Road	\$5,650,000 to \$5,660,000	6.70%	6.95%	8.75%	2.18%
173 Bill Richardson Drive	\$3,000,000 to \$3,000,000	7.00%	7.25%	8.50%	2.18%
25 Spitfire Drive	\$3,720,000 to \$3,890,000	6.50%	6.75%	7.50%	2.25%
58 Ormiston Road	\$7,900,000 to \$8,000,000	7.00%	7.25%	8.00%	2.15%
17 Catherine McLean	\$3,700,000 to \$3,700,000	6.50%	6.75%	8.25%	2.12%
130 Pinecrest Drive	\$4,800,000 to \$5,000,000	6.50%	6.75%	8.00%	2.15%
6-8 Merfield Road	\$5,900,000 to \$6,000,000	6.25%	6.50%	7.50%	2.15%
70 Ward Street	\$4,510,000 to \$4,860,000	6.00%	6.25%	7.25%	2.25%
30 Tuhikaramea	\$6,400,000 to \$6,400,000	7.00%	7.25%	8.00%	2.22%
15 Castlepoint Drive	\$4,700,000 to \$5,000,000	6.625%	6.875%	8.00%	2.15%

PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

11. Investment property (continued)

d) Valuation Sensitivity

A sensitivity analysis showing how a change to capitalisation and discount rates affect the value of the Fund's investment properties is provided on the following page. The capitalisation rate relates to the income capitalisation approach and the discount rate relates to the discounted cash flow approach. Generally a change in the capitalisation rate is accompanied by a directionally similar change in the discount rate. The table below assesses each of these inputs in isolation and assumes all other inputs are held constant.

	Adopted Value	Capitalisation Rate -0.25%	Capitalisation Rate 0.25%
145 Hibiscus Coast Highway			
Actual Valuation	\$ 4,850,000		
Impact of assumption change (\$)		200,000	(200,000)
Impact of assumption change		4.1%	(4.1%)
14 Learners Road			
Actual Valuation	\$ 5,650,000		
Impact of assumption change (\$)		210,000	(200,000)
Impact of assumption change		3.7%	(3.5%)
173 Bill Richardson Drive			
Actual Valuation	\$ 3,000,000		
Impact of assumption change (\$)		100,000	(100,000)
Impact of assumption change		3.3%	(3.3%)
25 Spitfire Drive			
Actual Valuation	\$ 3,800,000		
Impact of assumption change (\$)		150,000	(130,000)
Impact of assumption change		3.9%	(3.4%)
58 Ormiston Road			
Actual Valuation	\$ 8,000,000		
Impact of assumption change (\$)		300,000	(200,000)
Impact of assumption change		3.8%	(2.5%)
17 Catherine McLean			
Actual Valuation	\$ 3,700,000		
Impact of assumption change (\$)		100,000	(200,000)
Impact of assumption change		2.7%	(5.4%)
130 Pincrest Drive			
Actual Valuation	\$ 4,900,000		
Impact of assumption change (\$)		200,000	(200,000)
Impact of assumption change		4.1%	(4.1%)
6-8 Merfield Road			
Actual Valuation	\$ 5,950,000		
Impact of assumption change (\$)		200,000	(200,000)
Impact of assumption change		3.4%	(3.4%)
70 Ward Street			
Actual Valuation	\$ 4,700,000		
Impact of assumption change (\$)		200,000	(170,000)
Impact of assumption change		4.3%	(3.6%)
30 Tuhikaramea			
Actual Valuation	\$ 6,400,000		
Impact of assumption change (\$)		200,000	(200,000)
Impact of assumption change		3.1%	(3.1%)
15 Castlepoint Drive			
Actual Valuation	\$ 4,800,000		
Impact of assumption change (\$)		200,000	(200,000)
Impact of assumption change		4.2%	(4.2%)
	\$ 55,750,000		

PMG Direct Childcare Fund

Notes to the Financial Statements

For the year ended 31 March 2024

12. Financial instruments

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 swaps.

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.

a) Liquidity risk

Liquidity risk is the risk that there are insufficient cash reserves to meet commitments as they fall due. The Fund evaluates its liquidity requirements on an ongoing basis. In general, the Fund will keep sufficient cash reserves to meet its obligations arising from its financial liabilities and will have the ability to make a call on shareholders to cover potential shortfalls.

The following table details the remaining contractual maturity for the Fund's financial liabilities. The Table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay and all interest rate variables being held constant.

Maturity analysis of liabilities:

2024	Total	0-12 months	1-2 Years	2-5 Years	5 Years & over
Financial Liabilities	\$	\$	\$	\$	\$
Secured Bank Loan	17,254,736	1,244,478	10,771,033	5,239,226	-
Derivative Financial Instruments	(177,122)	-	(177,122)	-	-
Other Financial liabilities					
Trade and other payables	410,269	410,269	-	-	-
2023	Total	0-12 months	1-2 Years	2-5 Years	5 Years & over
Financial Liabilities	\$	\$	\$	\$	\$
Secured Bank Loan	11,702,875	763,262	761,558	10,178,055	-
Derivative Financial Instruments	(415,511)	-	(415,511)	-	-
Other Financial liabilities					
Trade and other payables	664,619	664,619	-	-	-

b) Credit Risk

Credit risk is the risk that the counterparty to a transaction with the Fund will fail to discharge its obligations, causing the Fund to incur a financial loss. Financial instruments which potentially subject the Fund to credit risk consist of cash and cash equivalents and trade and other receivables. The Fund's policy to limit credit risk is to assess the creditworthiness of prospective tenants, and rent payments are required in advance. Where tenants do fall into default, this is actively managed to collect arrears. Cash and cash equivalents are held with a registered bank, with Standard & Poor's credit rating of AA-. The Fund manages its exposure to credit risk on an ongoing basis.

Maximum exposures to credit risk at balance date are the carrying amounts of financial assets in the Statement of Financial Position. The Fund has no concentration of credit risk.

PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

12. Financial instruments (continued)

c) Market risk

Market risk is the risk that changes in market prices such as interest rates will affect the Fund's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return on risk. The Fund's interest rate risk arises from bank borrowings (note 7). Borrowings issued at variable rates expose the Fund to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Fund to fair value interest rate risk. The Fund manages its cash flow interest rate risk by having a portion of the bank borrowings on fixed interest rates. This has the economic effect of providing certainty around interest payments on the bank borrowings. The floating portion of the borrowings is exposed to market interest rate risk. This risk is managed by the Directors of the Manager regularly evaluating current market interest rates and conditions and the risks associated and responding appropriately, including entering into interest rate swaps.

PMG Direct Childcare Fund has loan facilities with ASB Bank. The Loan facility limits are \$15,530,000 and \$15,227,000 is drawn down at balance date. The loans have floating interest of 8.14% and 8.24% respectively and a maturity date of 28 May 2025 and 30 October 2026.

Trade and other receivables and payables are interest free and have settlement dates within thirty days. All other assets and liabilities are non-interest bearing.

d) Interest rate risk

In managing interest rate risks the Fund aims to reduce the impact of short-term fluctuations on the Fund's earnings. Over the longer-term, however, permanent changes to interest rates would have an impact on profit.

	Weighted average Interest Rate	Balance	% of total loans
31 March 2024			
Bank Loans	8.17%	15,227,000	100%
Interest Rate Swaps	2.53%	9,400,000	
Net exposure to cash flow interest rate risk		5,827,000	
	Weighted average Interest Rate	Balance	% of total loans
31 March 2023			
Bank Loans	7.59%	10,057,000	100%
Interest Rate Swaps	0.96%	6,400,000	
Net exposure to cash flow interest rate risk		3,657,000	

Sensitivity

Sensitivity in changes to interest rates is normally relevant to financial instruments bearing floating interest rates but may be relevant to fixed rate financial instruments that are re-measured at fair value.

The following is a cash flow sensitivity analysis for variable rate borrowings. A change in 100 basis point in interest rates at 31 March 2024 and 31 March 2023 would have increased (decreased) equity or profit and loss by the amounts shown below. This analysis includes the offsetting movement in cash flow from interest rate swaps and assumes that all other variables remain constant.

	Profit or Loss		Equity	
	100bp Increase	100bp decrease	100bp increase	100bp decrease
	\$	\$	\$	\$
31 March 2024				
Variable rate bank borrowings	(58,270)	58,270	(58,270)	58,270
Cash flow sensitivity (net)	(58,270)	58,270	(58,270)	58,270
31 March 2023				
Variable rate bank borrowings	(36,570)	36,570	(36,570)	36,570
Cash flow sensitivity (net)	(36,570)	36,570	(36,570)	36,570



PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

12. Financial instruments (continued)

e) Derivatives financial instruments

The Fund enters into interest rate swaps to reduce interest rate risk. 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.

At 31 March 2024, interest rate swaps had a notional value of \$9,400,000 (2023: \$6,400,000). Fair value has been determined by ASB Bank Limited.

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 2024	Maturity date	Notional Value	Fixed Interest rate	Fair Value \$
Interest rate swap 1	18 September 2024	2,400,000	0.26%	63,343
Interest rate swap 2	18 February 2025	2,000,000	0.63%	85,252
Interest rate swap 3	30 November 2024	2,000,000	2.56%	38,505
Interest rate swap 4	29 November 2024	2,000,000	5.68%	(2,678)
Interest rate swap 5	28 November 2025	1,000,000	5.415%	<u>(7,300)</u>
				177,122

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.

Fair values and fair value hierarchy

The carrying amounts shown in the Statement of Financial Position are a reasonable approximation of the fair value of the financial instruments. 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).

f) Classification and fair values	Total Carrying Amount	Level 1	Level 2	Level 3
	\$	\$	\$	\$
31 March 2024				
Financial Assets Designated at fair value				
Derivative Financial Instruments	<u>177,122</u>	<u>-</u>	<u>177,122</u>	<u>-</u>
Total Financial Assets	<u>177,122</u>	<u>-</u>	<u>177,122</u>	<u>-</u>
	Total Carrying Amount	Level 1	Level 2	Level 3
	\$	\$	\$	\$
31 March 2023				
Financial Assets Designated at fair value				
Derivative Financial Instruments	<u>415,511</u>	<u>-</u>	<u>415,511</u>	<u>-</u>
Total Financial Assets	<u>415,511</u>	<u>-</u>	<u>415,511</u>	<u>-</u>



PMG Direct Childcare Fund

Notes to the Financial Statements

For the year ended 31 March 2024

13. Related Parties

The assets of the Fund are managed under a Management Agreement between the Investors and PMG Property Funds Management Limited. PMG Property Funds Management Limited is a related party under IAS 24 due to their ability to exercise significant influence over the Fund. PMG Property Funds Management Limited monitor the share registry for the Fund. PMG Funds Limited, PMG Capital Fund Limited, PMG Holdings Limited and Pacific Property Fund Limited are also related parties of the Fund as they have common Directors as the Manager. PMG Generation Fund is a related party due to having the same Manager.

Management fees are an arm's length transaction. Management fees payable to PMG Property Funds Management Limited have two components:

- A Fund Management Fee of 0.40% of the carrying value of the Investment Properties calculated on a monthly basis and a Property Management fee of 1.00% of the gross annual rental collected from the properties.

The Manager is also entitled to:

- An annual Performance Fee equivalent to 20% of the excess performance above the Fund's performance benchmark (the Fund benchmark rate is an internal rate of return (income plus revaluation gains) of 10%).
- A 1.25% acquisition fee or \$50,000 (whichever is the greater) for each additional property acquired and a 1% of the sale price fee if a property is disposed of by the Fund.
- A \$50,000 development fee if the fund acquires a property where an ECE centre development is being undertaken and a property investigation fee of up to \$20,000 for prospective acquisitions where the acquisition does not proceed and a 5% project management fee on any refurbishments undertaken on any properties.

PMG Property Funds Management Limited received management fees of \$244,784 (2023: \$232,596) and are entitled to a performance fee of \$Nil (2023: \$Nil). At balance date there was \$27,533 (2023: \$29,242) owing to PMG Property Funds Management Limited. They also received \$57,500 in acquisition fees and \$10,982 in project management fees.

There were related party transactions between PMG Funds Limited and PMG Direct Childcare Fund as PMG Funds Limited was paid expenses of \$64,695 during the year relating to the acquisitions of property (2023: \$97,658), of which \$Nil was owing at balance date (2023: \$8,285).

There were related party transactions between PMG Holdings Limited and PMG Direct Childcare Fund as PMG Holdings Limited held 100,000 units (2023: 100,000 units) in PMG Direct Childcare Fund during the year and received distributions of \$4,333 (2023: \$6,000), of which \$375 (2023: \$500) is owing at balance date.

There were related party transactions between Pacific Property Fund Limited and PMG Direct Childcare Fund as Pacific Property Fund Limited held 2,920,000 units (2023: 3,240,000 units) in PMG Direct Childcare Fund during the year and received distributions of \$126,524 (2023: \$64,800), of which \$10,950 (2023: \$16,200) is owing at balance date.

There were related party transactions between PMG Capital Fund Limited and PMG Direct Childcare Fund as PMG Capital Fund Limited held 920,000 units (2023: 920,000 units) in PMG Direct Childcare Fund during the year and received distributions of \$39,864 (2023: \$25,300), of which \$3,450 (2023: \$4,600) is owing at balance date.

There were related party transactions between PMG Generation Fund and PMG Direct Childcare Fund as PMG Generation Fund held 20,000 units (2023: 20,000 units) in PMG Direct Childcare Fund during the year and received distributions of \$867 (2023: \$900), of which \$75 (2023: \$100) is owing at balance date.

There were related party transactions between Nigel Lowe's Family Trust (Nigel is Director of the Manager) and PMG Direct Childcare Fund as NS & MK Lowe Family Trust Fund held 60,000 units (2023: 60,000 units) in PMG Direct Childcare Fund during the year and received distributions of \$2,600 (2023: \$3,600), of which \$225 (2023: \$300) is owing at balance date.



PMG Direct Childcare Fund
Notes to the Financial Statements
For the year ended 31 March 2024

14. Comparison to Prospective Financial Statements

A comparison to the prospective financial statements, as issued in the Product Disclosure Statement dated 26 October 2022 has been provided in the financial statements on Pages 3-6. The key differences in the Statement of Comprehensive Income are that the rental income is less than forecast due to changes in tenants given Rainbow Corner Childcare went into receivership in March 2023. There has also been an increase in finance costs due to interest rates rising and an increase in property operating expenses due to having an additional property in the 2024 year. There was a decrease in administration costs due to less legal expenses and valuation expenses in the year than forecasted. The decrease in fair value of investment property was more than allowed for in the forecast, as no allowance was made due to this being based on market valuations, which could not be projected. The key differences in the Statement of Financial Position are the Investment Property is higher than projected due to lower valuations than forecast in the 2023 year on the existing properties and another property (15 Castlepoint Drive) was purchased during this year and the borrowings are more than projected due to less units being issued in the 2023 year than projected and the purchase of another property in this financial year that was not projected.

15. Reconciliation of operating results and operating cashflows

	2024 \$	2023 \$
Total net profit/ (loss)	1,154,131	(3,228,043)
<i>Adjustments for:</i>		
Changes in fair value of investment property	(549,024)	(4,999,384)
Loss on disposal of investment property	-	(170,098)
Changes in fair value of derivative financial instruments	(238,389)	(47,635)
	1,941,544	1,989,074
<i>Changes due to assets and liabilities used in operating activities</i>		
Trade Payables/Accruals	(206,769)	(53,883)
Prepayments	(12,434)	(24,119)
Accounts Receivable	13,491	70,090
Lease Inducements	(282,623)	68,230
Income in Advance	9,217	(54,093)
Net cash from/ (used in) operating activities	1,462,426	1,995,299

16. Capital Commitments

The Fund has no capital commitments at balance date.

17. Contingent Liabilities

The Fund has no material contingent liabilities at balance date.

18. Subsequent Events

Subsequent to Balance Date the distribution payable to the Investors from 1 April 2024 was increased by 0.25 cents per unit to 4.75 cents per unit.

Independent Auditor's Report

To the Investors of PMG Direct Childcare Fund

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of PMG Direct Childcare Fund (the 'Fund') on pages 3 to 19 present fairly, in all material respects:

- i. the Fund's financial position as at 31 March 2024 and its financial performance and cash flows for the year period ended on that date;

in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards issued by the International Accounting Standards Board.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2024;
- the statements of comprehensive income, changes in equity and cash flows for the year period then ended; and
- notes, including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with Professional and Ethical Standard 1 *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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Investors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Valuation of Investment Property

As disclosed in note 11 of the financial statements, the Fund's Investment Property valued at \$54.8m represents the majority of the assets held by the Fund as at 31 March 2024.

The valuation of Investment Property is considered a key audit matter due to the judgement involved in the assessment of the fair value of this asset category by the Manager of the Fund. The judgement relates to the various valuation methodologies used and the assumptions found within each of those methodologies.

The assumptions that have the largest impact on the valuations are:

- Capitalisation rate;
- Discount rate; and
- Terminal yield;

Our audit procedures included:

- Assessing the competence, objectivity, and independence of the external experts used by the Manager, including the assessment of their professional qualifications and experience;
- Assessing whether the valuation methodologies used to fair value the Investment Property were appropriate;
- Agreeing observable inputs used in the Investment Property valuations to supporting documentation;
- Assessing whether the key assumptions and inputs used in the valuation models were reasonable. This included the comparison of terminal yields, capitalisation rates, and discount rates to market benchmarks;
- Assessing whether changes in assumptions (where applicable) were in line with expectation; and
- Considering whether the cash flows had been adjusted for anticipated rental abatements and reduced rental growth where applicable.

We had no matters to report as a result of our procedures.

Other information

The Manager, on behalf of the Fund, are responsible for the other information included in the entity's financial statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the Investors as a body. Our audit work has been undertaken so that we might state to the Investors those matters we are required to state to them in the independent 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 as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Manager for the financial statements

The Manager, on behalf of the Fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- 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 independent 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. They 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 our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

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

This description forms part of our independent auditor's report.

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

For and on behalf of



KPMG
Tauranga

29 May 2024