

# **APN** | Property for Income Fund No. 2

ARSN 113 296 110

Annual Report for the Financial Year

Ended 30 June 2016

## Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the annual financial report of APN Property For Income Fund No.2 ("the Fund") for the year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Responsible Entity during and since the end of the financial year are:

### **Name**

Geoff Brunson (Chairman and Independent Non-Executive Director)  
Howard Brenchley (Non-Executive Director)  
Michael Johnstone (Independent Non-Executive Director)  
Jennifer Horgan (Independent Non-Executive Director)  
Michael Groth (Chief Financial Officer and Alternate Director for Howard Brenchley)

### **Principal activities**

The Fund is a registered managed investment fund domiciled in Australia. The principal activity of the Fund is to invest funds in property-based securities.

The Fund did not have any employees during the financial year.

### **Changes in state of affairs**

During the financial year there was no significant change in state of affairs of the Fund.

### **Future developments**

The Fund will continue to pursue its policy of increasing returns through active investment selection.

Disclosure of information regarding likely developments in the operations of the Fund in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Fund. Accordingly, this information has not been disclosed in this report.

### **Review of operations of the Fund**

The principal investment objective of the Fund is to provide investors with a high level of income from a range of property-based income streams.

### **Results**

The results of the operations of the Fund are disclosed in the Statement of Profit or Loss and Other Comprehensive Income of these financial statements. The profit attributable to unitholders for the year ended 30 June 2016 was \$14,676,000 (2015: \$15,231,000).

### **Distributions**

In respect of the financial year ended 30 June 2016 a final distribution of 0.5417 cents per unit was paid to the unitholders on 11 July 2016 (2015: 0.5417 cents per unit). The total distribution paid to unitholders in respect to the year ended 30 June 2016 was 6.5004 cents per unit (2015: 6.5004 cents per unit).

For full details of distributions paid and payable during the year, refer to note 5 to the financial statements.

### **Auditor's independence declaration**

The Auditor's Independence Declaration is included on page 4 of the annual report.

### **Subsequent events**

There has not been any matter or circumstance that has arisen since the end of the financial year, which has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

### **Fund information in the directors' report**

Fees paid to the Responsible Entity out of Fund property during the financial year are disclosed in note 9 to the financial statements.

The number of units in the Fund held by the Responsible Entity and its associates as at the end of the financial year is disclosed in note 9 to the financial statements.

The number of interests in the Fund issued during the financial year, withdrawals from the Fund during the financial

year, and the number of interests in the Fund at the end of the financial year is disclosed in note 6 to the financial statements.

The value of the Fund's assets as at the end of the financial year is disclosed in the Statement of Financial Position as "Total Assets" and the basis of valuation is included in note 1 to the financial statements.

### **Options granted**

No options were:

- Granted over unissued units in the Fund during or since the end of the financial year; or
- Granted to the Responsible Entity.

No unissued units in the Fund were under option as at the date on which this Report is made.

No units were issued in the Fund during or since the end of the financial year as a result of the exercise of an option over unissued units in the Fund.

### **Indemnification of officers of the responsible entity and auditors**

APN Funds Management ("the Company") has agreed to indemnify the directors and officers of the Company and its related bodies corporate, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, except where the liability arises out of unlawful conduct. The Company will meet the full amount of any such liabilities, including costs and expenses. The Company may also indemnify any employee by resolution of the Directors. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Company. The Company has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

### **Rounding off of amounts**

The Fund is a fund of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### **Other matters**

APN Funds Management Limited has an Error Rectification and Compensation Policy that applies in respect of this Fund. In accordance with this policy, a fixed dollar minimum threshold of \$20 will apply before a compensation payment is made to an investor that has previously exited the Fund. The full Error Rectification and Compensation Policy is available at the APN Property Group Limited website [www.apngroup.com.au](http://www.apngroup.com.au).

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



**Geoff Brunson**

Chairman

MELBOURNE, 21 September 2016

The Board of Directors  
APN Funds Management Limited  
Level 30, 101 Collins Street  
MELBOURNE VIC 3000

21 September 2016

Dear Board Members

## **Independence Declaration –APN Property for Income Fund No. 2**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the annual financial report for APN Property for Income Fund No. 2.

As lead audit partner for the audit of the financial statements of APN Property for Income Fund No. 2 for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

## Independent Auditor's Report to the Unitholders of APN Property for Income Fund No. 2

We have audited the accompanying financial report of APN Property for Income Fund No. 2 ("the Fund"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund as set out on pages 7 to 24.

### *Directors' Responsibility for the Financial Report*

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:

- (a) the financial report of APN Property for Income Fund No. 2 is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) The financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

Melbourne, 21 September 2016

## Directors' declaration

The directors of the Responsible Entity declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund; and
- c) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as referred in Note 1 of the financial statements.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



**Geoff Brunsdon**

Chairman

MELBOURNE, 21 September 2016

## Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Income</b>			
Distributions		5,318	7,162
Interest		22	48
Net change in the fair value of investments		10,081	8,927
Other income	7	281	316
<b>Total income</b>		<b>15,702</b>	<b>16,453</b>
<b>Expenses</b>			
Investment management fee		706	815
Registry fee		146	175
Other expenses		148	213
Auditor's remuneration	8	26	19
<b>Total expenses</b>		<b>1,026</b>	<b>1,222</b>
<b>Profit attributable to unitholders</b>		<b>14,676</b>	<b>15,231</b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	5	(4,144)	(5,397)
Increase in net assets attributable to unitholders	6	(10,532)	(9,834)
<b>Net profit</b>		<b>-</b>	<b>-</b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income attributable to unitholders</b>		<b>-</b>	<b>-</b>

Notes to the financial statements are included on pages 12 to 24.



## Statement of Financial Position as at 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>Assets</b>			
Cash and cash equivalents		1,367	664
Distribution receivables		1,507	1,475
Other receivables	2	97	311
Listed equities and listed schemes	3	61,841	65,613
Unlisted equities and unlisted schemes	3	6,822	7,952
<b>Total assets</b>		<b>71,634</b>	<b>76,015</b>
<b>Liabilities (excluding liabilities attributable to unitholders)</b>			
Payables	4	227	246
Distribution payable	5	314	388
Redemption payable		21	6
<b>Total liabilities (excluding liabilities attributable to unitholders)</b>		<b>562</b>	<b>640</b>
<b>Net assets attributable to unitholders</b>	6	<b>71,072</b>	<b>75,375</b>
<b>Liabilities attributable to unitholders</b>		<b>(71,072)</b>	<b>(75,375)</b>
<b>Net assets</b>		<b>-</b>	<b>-</b>

Notes to the financial statements are included on pages 12 to 24.

## Statement of Changes in Equity for the year ended 30 June 2016

	Equity attributable to unitholders \$'000	Total \$'000
<b>Balance at 1 July 2014</b>	-	-
Profit or loss for the year	-	-
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	-	-
<b>Balance at 30 June 2015</b>	-	-
Profit or loss for the year	-	-
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	-	-
<b>Balance at 30 June 2016</b>	-	-

Notes to the financial statements are included on pages 12 to 24.

## Statement of Cash Flows for the financial year ended 30 June 2016

	Note	2016 Inflows/ (Outflows) \$'000	2015 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Distributions received		5,266	9,598
Interest received		43	68
Other receipts		55	67
Expenses paid		(607)	(1,040)
<b>Net cash provided by operating activities</b>	10(b)	<b>4,757</b>	<b>8,693</b>
<b>Cash flows from investing activities</b>			
Payments for investments		(2,256)	(12,423)
Proceeds from sale of investments		17,239	41,931
<b>Net cash provided by investing activities</b>		<b>14,983</b>	<b>29,508</b>
<b>Cash flows from financing activities</b>			
Receipts from issue of units		569	311
Payments for redemption of units		(15,510)	(34,647)
Distributions paid		(4,096)	(5,454)
<b>Net cash used in financing activities</b>		<b>(19,037)</b>	<b>(39,790)</b>
Net increase / (decrease) in cash and cash equivalents held		703	(1,589)
Cash and cash equivalents at beginning of the financial year		664	2,253
<b>Cash and cash equivalents at end of the financial year</b>	10(a)	<b>1,367</b>	<b>664</b>

Notes to the financial statements are included on pages 12 to 24.

# Notes to the Financial Statements

## 1. Summary of significant accounting policies

### Statement of compliance & basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (“A-IFRS”). Compliance with the A-IFRS ensures that the financial statements and notes of the Fund comply with International Financial Reporting Standards (“IFRS”).

The financial statements were authorised for issue by the directors on 21 September 2016.

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain investment assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed below and, where applicable, in the relevant notes to the financial statements.

The fund has investments in unlisted shares with a carrying amount of \$6,822,000 (2015: \$7,952,000) representing their estimated fair value (see note 3). The fair value is derived from unobservable inputs as there is no active market. The fair value of these investments is determined using the latest available prices provided by the investment managers of these investments. These prices may have been calculated using models with unobservable inputs and assumptions that may not necessarily be supported by prices from observable current market transactions. The limited availability of observable market transactions in the same instrument suggests that the valuation of these investments is subject to a greater uncertainty and would require greater judgment.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented in these financial statements.

### Adoption of new and revised accounting standards

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Except where noted, the adoption of these Standards and Interpretations has not had a material impact on the financial statements. These include:

Standard	Explanation
AASB 2015-3 ‘Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality’	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.
AASB 2015-4 ‘Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent’	<p>The amendments to AASB 128 align the relief available in AASB 10 and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. The amendments require that the ultimate Australian entity shall apply the equity method in accounting for interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.</p> <p>The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Fund’s financial statements.</p>

### AASB Accounting Standards not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective. These are not expected to have any material impact on the Fund’s financial report in future reporting periods.

<b>Standard</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	30 June 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	30 June 2019
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	30 June 2019

### **Rounding off of amounts**

The Fund is a fund of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### **Significant accounting policies**

The following significant accounting policies have been adopted in the preparation and presentation of the yearend financial report:

#### **(a) Revenue**

Distribution income is recognised on a receivable basis as of the date the security is quoted ex-distribution or is recognised on an entitlement basis.

Interest revenue is recognised as it accrues on a time proportionate basis taking into account the effective yield on the financial assets.

#### **(b) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **(c) Investments**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned,

and are initially measured at fair value.

The following methods are employed to determine the fair value of investments:

- Investments in listed equities and listed managed investment schemes are recorded at the quoted closing price on relevant stock exchanges; and
- Unlisted equities and unlisted managed investment schemes are recorded at the latest publically available net asset value or redemption price if available, as disclosed by the underlying investment manager.

Gains or losses arising from changes in the fair value of investments are included in the profit or loss in the period in which they arise. Those gains or losses exclude distribution income and interest revenue.

#### **(d) Investment in associates**

Investments in associates that are investments in unlisted unit trusts are measured at fair value through profit or loss. Gains or losses arising from changes in the fair value of investments in associates are included in the profit or loss in the period in which they arise. Those gains or losses exclude distribution income and interest revenue.

#### **(e) Loans and receivables**

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for dividends, interest, trust distributions and unsettled trades. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 1(a) above.

#### **(f) Expenses**

All expenses, including investment management fees and registry fees, are recognised in the statement of comprehensive income on an accruals basis.

#### **(g) Distributions**

In accordance with the Fund's constitution, the Fund fully distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by way of cash or reinvestment into the Fund.

Distributions to unitholders comprise the income of the Fund to which the unitholders are presently entitled. The distributions are payable monthly.

#### **(h) Applications and redemptions**

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

#### **(i) Debt and equity instruments**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

In accordance with AASB 132 unitholders funds are defined as "puttable instruments" and are therefore classified as a financial liability and disclosed as such in the statement of financial position, being referred to as "Net assets attributable to unitholders".

#### **(j) Income tax**

Under current income tax legislation the Fund is not liable to pay income tax as the net income of the Fund is assessable in the hands of the beneficiaries (the unitholders) who are 'presently entitled' to the income of the Fund. There is no income of the Fund to which the unitholders are not presently entitled and additionally, the Fund Constitution requires the distribution of the full amount of the net income of the Fund to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Fund, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Fund to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Fund Constitution.

### (k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### (l) Impairment of financial assets

Financial assets, other than those at fair value through the profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. Objective evidence of impairment can exist for example where there has been a significant or prolonged decline in the fair value below cost. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

### (m) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

### (n) Provisions

Provisions are recognised when the Fund has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Fund has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

## 2. Receivables

	2016	2015
	\$'000	\$'000
Unsettled trades	-	217
Goods and services tax recoverable	11	13
Expense recoveries	86	81
	<b>97</b>	<b>311</b>

### 3. Investments

	2016 \$'000	2015 \$'000
<b>Managed investment schemes at fair value</b>		
Listed equities and listed schemes	61,841	65,613
Unlisted equities and unlisted schemes	6,822	7,952
	<b>68,663</b>	<b>73,565</b>

### 4. Payables

	2016 \$'000	2015 \$'000
Accounts payable	218	238
Accrued expenses	9	8
	<b>227</b>	<b>246</b>

### 5. Distributions paid and payable

	2016		2015	
	Cents per unit	\$'000	Cents per unit	\$'000
Distribution paid during the year	5.9587	3,830	5.9587	5,009
Distribution payable	0.5417	314	0.5417	388
	<b>6.5004</b>	<b>4,144</b>	<b>6.5004</b>	<b>5,397</b>

### 6. Net assets attributable to unitholders

	2016 Units	2015 Units
<b>Units on issue</b>		
On issue at beginning of the year	71,563,764	105,481,697
Applications	505,313	306,626
Redemptions	(14,159,056)	(34,348,544)
Units issued upon reinvestment of distributions	110,174	123,985
<b>On issue at year end</b>	<b>58,020,195</b>	<b>71,563,764</b>
	2016 \$'000	2015 \$'000
<b>Movements in net assets attributable to unitholders</b>		
At beginning of the year	75,375	99,756
Unit applications	568	311
Unit redemptions	(15,524)	(34,653)
Units issued upon reinvestment of distributions	121	127
Net transfer from statement of comprehensive income	10,532	9,834
<b>Net assets attributable to unitholders</b>	<b>71,072</b>	<b>75,375</b>

Each unit represents a right to an individual share in the Fund per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Fund.



## 7. Other income

	2016 \$'000	2015 \$'000
Management fee rebates	56	67
Expense recoveries	225	249
	<b>281</b>	<b>316</b>

## 8. Auditor's remuneration

	2016 \$	2015 \$
<b>Auditor of the Fund</b>		
Auditing or reviewing the Financial Report	15,361	14,923
Other non-audit services*	10,590	3,734
	<b>25,951</b>	<b>18,657</b>

\* Other non-audit services include tax, audit of the compliance plan and other approved advisory services.

The auditor of the Fund is Deloitte Touche Tohmatsu.

## 9. Related party disclosures

The Responsible Entity and Manager of APN Property For Income Fund No.2 is APN Funds Management Limited (ACN 080 674 479) whose immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to APN Property Group Limited are disclosed below.

Transactions with the Responsible Entity have taken place at arms length and in the ordinary course of business. Amounts are as follows:

- Investment management fees of \$706,000 of which \$174,000 was payable at 30 June 2016 (2015: \$815,000 of which \$184,000 was payable at 30 June 2015).
- Registry and accounting fees of \$187,000 of which \$22,000 was payable at 30 June 2016 (2015: \$216,000 of which \$23,000 was payable at 30 June 2015).
- Other expenses include reimbursement to the Responsible Entity of \$46,000 (2015: \$51,000) of costs incurred by the Responsible Entity on behalf of the Fund.

### Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund.

The names of the key management personnel of the Responsible Entity during the financial year were:

- Geoff Brunson (Chairman and Independent Non-Executive Director)
- Howard Brenchley (Non-Executive Director)
- Michael Johnstone (Independent Non-Executive Director)
- Jennifer Horigan (Independent Non-Executive Director)
- John Freemantle (Company Secretary)
- Michael Groth (Chief Financial Officer and Alternate Director for Howard Brenchley)

The positions noted above are the positions held within the Responsible Entity and not the Fund itself.

Key management personnel are paid by the parent of the Responsible Entity for their services to APN Property Group Limited. Payments made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of the Responsible Entity's key management personnel in respect of services rendered to the Fund itself.

### Holdings of units by related parties

Related parties may purchase and sell units in the Fund in accordance with their respective constitutions and product disclosure statements. Details of units held in the Fund by related parties are set out below:

	Number of units held	
	2016	2015
<b>Responsible entity and its associates</b>		
APN Property Group Limited	64	64

### Related party investments held by the Fund

The Fund may purchase and sell units in other approved funds managed by APN Funds Management Limited or its associates in the ordinary course of business at fair market value. Details of the Fund's investments in other funds operated by APN Funds Management Limited are set out below:

	Number of units held	
	2016	2015
<b>Investments in related parties held by the Fund</b>		
APN European Retail Property Group	340,004	340,004
APN Property Plus Portfolio	478,043	545,455
APN Unlisted Property Fund	18,774,854	18,774,854
Generation Healthcare REIT	1,232,769	1,176,471
Industria REIT	300,000	510,000

During or since the end of the financial year, none of the Responsible Entity's key management personnel held units in the Fund, either directly, indirectly, or beneficially.

### Directors' loans

No loans were made by the Fund to the Responsible Entity's key management personnel and / or their related parties.

## 10. Notes to the cash flow statement

### (a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	1,367	664
<b>Total cash and cash equivalents</b>	<b>1,367</b>	<b>664</b>

### (b) Reconciliation of profit for the period to net cash provided by operating activities

	2016	2015
	\$'000	\$'000
<b>Net profit</b>		
Profit attributable to unitholders	14,676	15,231
<b>Net profit attributable to unitholders</b>	<b>14,676</b>	<b>15,231</b>
Net (gains) on disposal of investments	(5,847)	(43,816)
Net (gains) / losses on revaluation of equity investments	(4,234)	34,889
<b>Changes in net assets:</b>		
Decrease in income receivable	180	2,481
(Decrease) in creditors and accruals	(18)	(92)
<b>Net cash provided by operating activities</b>	<b>4,757</b>	<b>8,693</b>

### **(c) Non-cash financing and investing activities**

During the year income distributions totaling \$121,000 (2015: \$127,000) were reinvested by unitholders for additional units in the Fund.

## **11. Financial risk management**

The Fund undertakes transactions in a range of financial instruments including:

- cash and cash equivalents;
- receivables;
- investments in listed managed investment schemes;
- investments in unlisted managed investment schemes; and
- payables.

These activities expose the Fund to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk and other price risk.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Fund's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

### **(a) Financial risk management objectives**

The Fund has engaged APN Funds Management Limited ('Investment Manager') to provide services including coordinating access to domestic financial markets and managing the financial risks relating to the operations of the Fund in accordance with the Fund's constitution and product disclosure statement. The Responsible Entity has determined that this appointment is appropriate for the Fund and is in accordance with the Fund's investment strategy.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

The Fund's investment objective is to provide investors with a consistent, relatively high level of income combined with some capital growth, sourced from an appropriately wide spread of property-based revenue streams. The Fund primarily invests in Australian listed property securities, unlisted property trusts, property syndicates, securitised mortgages/mortgage trusts and cash/fixed interest. The Fund does not invest in direct property.

A significant focus for the management of the Fund is on generating sustainable and regular income returns. This typically means that the Fund targets those listed property securities it believes can achieve relatively higher and sustainable income returns than would be achieved by investing on an index weighted basis.

The Fund does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Fund's investment policies, which provides written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity's aim to invest in such a way that any risks the Fund is exposed to are minimised, while at the same time endeavoring to achieve the investment objectives of the Fund.

National Australia Bank Limited acts as master custodian on behalf of the Responsible Entity and, as such, provides services including physical custody and safekeeping of assets, settlement of trades and collection of dividends.

### **(b) Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

### (c) Capital risk management

The Responsible Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders in accordance with the Fund's investment strategy.

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund. The Investment Manager aims to ensure that there is sufficient capital for possible redemptions by unitholders by maintaining up to 10% of its total investments in cash and cash equivalents.

The Fund has no restrictions or specific capital requirements on the application and redemption of units. The Fund's overall investment strategy remains unchanged from the prior year.

### (d) Categories of financial instruments

The Fund has investments in the following categories of financial assets and liabilities:

	2016 \$'000	2015 \$'000
Financial assets designated as at fair value through profit or loss	68,663	73,565
Loans & receivables	1,604	1,786
Financial liabilities measured at amortised cost	(562)	(640)

### (e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Fund has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default. The Fund's investment objective is to find high quality customers with a stable credit history. The Fund measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2016 and at 30 June 2015 is the carrying amounts of financial assets recognised in the statement of financial position of the Fund. The Fund holds no collateral as security and the credit quality of all financial assets that are neither past due nor impaired is consistently monitored in order to identify any potential adverse changes in the credit quality.

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics.

Derivative counterparties, broking relationships and cash transactions are limited to financial institutions that meet the treasury risk management policy's minimum credit rating criteria or comply with Trade Management Procedure requirements. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Fund is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Distribution receivables are non-interest bearing and are generally on 30-90 day terms. An impairment loss would be recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2016 no receivables were impaired nor past due (2015: Nil).

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. For the Fund, the ageing analysis of distribution receivables is as follows:

	2016 \$'000	2015 \$'000
<b>Ageing analysis of receivables not impaired</b>		
0-30 days	492	251
31-90 days	1,015	1,224
91+ days	-	-
	<b>1,507</b>	<b>1,475</b>

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Fund's operations.

## (f) Liquidity risk

Liquidity risk includes the risk that the Fund, as a result of its operations:

- will not have sufficient funds to settle a transaction or unit redemption on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Fund manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

To help reduce these risks the Fund:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- generally invests in instruments that are tradable in highly liquid markets; and
- has a liquidity portfolio structure that requires surplus funds to be invested in various types of liquid instruments ranging from highly liquid to liquid instruments.

Liabilities to unitholders are payable on demand. The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. While the Fund is considered liquid in accordance with the Corporations Act, unitholders are able to withdraw their units at any time and the Fund is therefore exposed to the liquidity risk of meeting unitholders' withdrawals at any time. As the Fund's primary investment objective is to invest in listed property securities which are considered liquid, the Fund's exposure to liquidity risk is considered to be very low.

The table below shows an analysis of the contractual maturities of key liabilities which forms part of the Fund's assessment of liquidity risk excluding liabilities attributable to unitholders:

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2016</b>					
<b>Liabilities</b>					
Accounts payable	(227)	-	-	-	(227)
Distribution payable	(314)	-	-	-	(314)
Redemption payable	(21)	-	-	-	(21)
	<b>(562)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(562)</b>
	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2015</b>					
<b>Liabilities</b>					
Accounts payable	(246)	-	-	-	(246)
Distribution payable	(388)	-	-	-	(388)
Redemption payable	(6)	-	-	-	(6)
	<b>(640)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(640)</b>

The Fund is able to sufficiently meet its liquidity obligations through the receipt of distribution income or via the sale of listed investments where required.

## (g) Market risk

Market risk is the risk that the fair value or future cash flows of the Fund's financial instruments will fluctuate because of changes in market conditions or factors. The Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Fund's investment mandate is to provide investors with a consistent, relatively high level of income combined with some capital growth, sourced from an appropriately wide spread of property-based revenue streams. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk. Components of market risk to which the Fund is exposed are interest rate risk and price risk.

## Interest rate risk

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's policy is to hold up to a maximum of 10% of the net assets attributable to unitholders invested in cash and fixed interest securities.

As at balance date, the Fund's exposure to interest rates is as follows: Cash and cash equivalents at fair values of \$1,367,000 (2015: \$664,000) with a weighted average interest rate of 1.76% (2015: 2.18%).

## Interest rate sensitivity

The sensitivity analyses below have been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current environment in which the Fund operates.

Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

For the Fund, a 25 basis point increase in interest rates would have increased operating profit before finance costs attributable to unitholders, and increased liabilities attributable to unitholders by \$3,000 (2015: an increase of \$5,000); an equal change in the opposite direction would have decreased operating profit before finance costs attributable to unitholders, and increased liabilities attributable to unitholders by \$3,000 (2015: a decrease of \$5,000).

## Price risk

Price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Fund has investments in equity instruments and unlisted managed investment schemes which exposes it to price risk. The Investment Manager manages the Fund's market risk on a daily basis in accordance with the Fund's investment objectives and policies, as detailed in the Fund's product disclosure statement and constitution.

As the Fund's financial instruments are carried at fair value with changes in the fair value recognised in the statement of comprehensive income, all changes in market conditions will directly affect investment income.

For the Fund, a 10% increase in market prices would have increased operating profit before finance costs attributable to unitholders, and increased liabilities attributable to unitholders by \$6,866,000 (2015: an increase of \$7,357,000); an equal change in the opposite direction would have decreased operating profit before finance costs attributable to unitholders, and decreased liabilities attributable to unitholders by \$6,866,000 (2015: a decrease of \$7,357,000).

## (h) Fair value of financial instruments

The directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

Financial assets and liabilities held at fair value through the profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through the profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through the profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices without any deduction for estimated future selling costs; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

## Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2016, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurement as at 30 June 2016				
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets at FVTPL</b>				
Listed equities and listed schemes	61,841	-	-	61,841
Unlisted equities and unlisted schemes	-	-	6,822	6,822
<b>Total</b>	<b>61,841</b>	<b>-</b>	<b>6,822</b>	<b>68,663</b>
<b>Financial liabilities at FVTPL</b>				
Financial liabilities designated at fair value through profit or loss	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fair value measurement as at 30 June 2015				
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets at FVTPL</b>				
Listed equities and listed schemes	65,613	-	-	65,613
Unlisted equities and unlisted schemes	-	-	7,952	7,952
<b>Total</b>	<b>65,613</b>	<b>-</b>	<b>7,952</b>	<b>73,565</b>
<b>Financial liabilities at FVTPL</b>				
Financial liabilities designated at fair value through profit or loss	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

- Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1 include listed property securities traded on the Australian Stock Exchange (ASX).
- Financial instruments that trade in markets that are not considered active but values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2.
- Classified within level 3 are financial instruments whose value are derived from significantly unobservable inputs as there is no active market. These include investments in unlisted property trusts and property syndicates. The fair value of these investments is determined using the latest available prices provided by the investment managers of these investments and represents the net asset value per unit/share. These prices may have been calculated using models with unobservable inputs and assumptions that may not necessarily be supported by prices from observable current market transactions. The limited availability of observable market transactions in the same instrument suggests that the valuation of these investments is subject to a greater uncertainty and would require greater judgement. Accordingly these investments have been classified in level 3.

A 1% change in the underlying NAV of these level 3 investments would have the following direct impact on the income statement \$68,220 (2015: \$79,520) and this would be primarily driven by a change in the underlying property values in the funds.

## Reconciliation of Level 3 fair value instruments of financial assets

The table below shows the reconciliation of fair value movements of financial assets classified within Level 3 of the fair value hierarchy:

	Unlisted equities and unlisted schemes 2016 \$'000	Total 2016 \$'000
<b>Opening balance</b>	7,952	7,952
<b>Total gains / (losses)</b>		
- in profit or loss (realised)	31	31
- in profit or loss (unrealised)	(1,057)	(981)
Purchases	-	-
Sales	(104)	(104)
Transfers into/out of Level 3	-	-
<b>Closing balance</b>	<b>6,822</b>	<b>6,898</b>

	Unlisted equities and unlisted schemes 2015 \$'000	Total 2015 \$'000
<b>Opening balance</b>	11,671	11,671
<b>Total gains / (losses)</b>		
- in profit or loss (realised)	(1,515)	(1,515)
- in profit or loss (unrealised)	2,027	2,027
Purchases	-	-
Sales	(4,231)	(4,231)
Transfers into/out of Level 3	-	-
<b>Closing balance</b>	<b>7,952</b>	<b>7,952</b>

### Transfers between levels

- As at 30 June 2016, there were no transfers in or out of level 3 of the fair value hierarchy (2015: nil).

## 12. Contingent liabilities and contingent assets

There are no commitments and contingencies in effect at 30 June 2016. (2015: Nil).

## 13. Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Fund, the results of the Fund, or the state of affairs of the Fund in future financial years.

## 14. Additional information

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of APN Property For Income Fund No.2.

### Principal registered office

Level 30  
101 Collins Street  
MELBOURNE VIC 3000  
Tel: (03) 8656 1000

### Principal place of business

Level 30  
101 Collins Street  
MELBOURNE VIC 3000  
Tel: (03) 8656 1000