APN | Property for Income Fund No. 2

ARSN 113 296 110

Annual Report for the Financial Year Ended 30 June 2018

Directors' report

The directors of APN Funds Management Limited ("APN FM"), the Responsible Entity of APN Property for Income Fund No 2 (the "Fund") present the annual financial report of the Fund for the financial year ended 30 June 2018.

To comply with the provisions of the *Corporations Act 2001*, the directors' report is as follows:

Information about the directors

The following persons were directors of the Responsible Entity during the financial year and up to the date of this report:

Geoff Brunsdon (Chairman and Independent Director)
Howard Brenchley (Independent Director)
Michael Johnstone (Independent Director)
Jennifer Horrigan (Independent Director)
Michael Groth (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 in property-based securities.

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

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 net profit for the year ended 30 June 2018 was $4,967,000 (2017 net loss of: $2,012,000).

Distributions

In respect of the financial year ended 30 June 2018 a final distribution of 0.5417 cents per unit was paid to the unitholders on 10 July 2018 (2017: 0.5417 cents per unit). The total distributions paid to unitholders in respect to the year ended 30 June 2018 was 6.5004 cents per unit (2017: 6.5004 cents per unit).

For full details of distributions paid and payable during the year, refer to note 6 to the financial statements.

Changes in state of affairs

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

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.

Future developments

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

Options granted

As the Fund is an externally managed vehicle, no options were:

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

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

No securities 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 securities in the Fund.

Indemnification of officers of the Responsible Entity and auditors

The Responsible Entity has agreed to indemnify the directors and officers of the Responsible Entity and its related bodies corporate, both past and present, against all liabilities to another person (other than the Responsible Entity or a related body corporate) that may arise from their position as directors and officers of the Responsible Entity and its controlled entities, except where the liability arises out of unlawful conduct.

The Responsible Entity will meet the full amount of any such liabilities, including costs and expenses. The Responsible Entity may also indemnify any employee by resolution of the directors. In addition, the Responsible Entity has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Responsible Entity. The Responsible Entity 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.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of the annual report.

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 applies 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.

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 Brunsdon
Chairman
MELBOURNE, 16 August 2018

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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16 August 2018

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

Dear Board Members

Independence Declaration – APN Property for Income Fund 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 2.

As lead audit partner for the audit of the financial statements of APN Property for Income Fund 2 for the financial year ended 30 June 2018, 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

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Unitholders of APN Property for Income Fund 2

Opinion

We have audited the financial report of APN Property For Income Fund 2 (the "Fund") which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund 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 2018 and of its financial performance for the year then ended; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of APN Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors of the Responsible Entity (the "directors") are responsible for the other information. The other information comprises the directors' report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be 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.

Responsibilities of the Directors for the Financial Report

The directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 16 August 2018

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 are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements; and

c) 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.

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 of the Responsible Entity, APN Funds Management Limited.

Geoff Brunsdon
Chairman
MELBOURNE, 16 August 2018

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Income			
Distributions		4,133	9,824
Interest income		9	31
Net fair value gain / (loss) on investments		1,377	(11,217)
Other income		245	275
Total income		**5,764**	**(1,087)**
Expenses			
Investment management fee		488	618
Registry fee		100	128
Other expenses		182	151
Auditor's remuneration	8	27	28
Total expenses		**797**	**925**
Net profit / (loss)		**4,967**	**(2,012)**
Finance costs attributable to unitholders *			
Distributions to unitholders	6	-	(3,466)
(Increase) / decrease in net assets attributable to unitholders	7	-	5,478
Profit / (loss) for the year *		**4,967**	**-**
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year *		**4,967**	**-**

* Effective 1 July 2017, net assets attributable to unitholders was reclassified to equity from a financial liability. In conjunction with this change the recognition of 'Finance costs attributable to unitholders' is no longer applicable. Refer note 1 for further details.

Notes to the financial statements have been included in the accompanying pages.

Statement of Financial Position

as at 30 June 2018

	Notes	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	10	217	615
Distributions receivable		836	1,001
Trade and other receivables	4	321	82
Listed equities and listed schemes		41,044	47,626
Unlisted equities and unlisted schemes		2,938	5,527
Total assets		**45,356**	**54,851**
Liabilities			
Trade and other payables	5	83	83
Distributions payable	6	207	263
Redemptions payable		21	5
Total liabilities		**311**	**351**
Net assets attributable to unitholders – liability *	7	-	**54,500**
Net assets attributable to unitholders – equity *		**45,045**	-

* Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to note 1 for further details.

Notes to the financial statements have been included in the accompanying pages.

Statement of Changes in Equity

for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Balance at the beginning of the year		**-**	**-**
Reclassification due to AMIT tax regime implementation *		54,500	-
Comprehensive income for the year			
Profit / (loss) for the year		4,967	-
Other comprehensive income		-	-
Total comprehensive income for the year		**4,967**	**-**
Transactions with unitholders			
Unit applications	7	56	
Unit redemptions	7	(11,794)	
Units issued upon reinvestment of distributions	7	99	-
Distributions paid and payable	6	(2,783)	-
Total transactions with unitholders		**(14,422)**	**-**
Balance at 30 June *		**45,045**	**-**

* Effective from 1 July 2017, the Fund's units have been reclassified from a financial liability to equity. Refer to note 1 for further details. As a result of this reclassification, equity transactions, including distributions, have been disclosed in the above statement for the year ended 30 June 2018.

Notes to the financial statements have been included in the accompanying pages.

Statement of Cash Flows

for the financial year ended 30 June 2018

	Notes	2018 Inflows/ (Outflows) $'000	2017 Inflows/ (Outflows) $'000
Cash flows from operating activities			
Distributions received		4,297	10,331
Interest received		9	29
Other income received		-	42
Other expenses paid		(1,011)	(819)
Net cash inflow/(outflow) from operating activities	10	**3,295**	**9,583**
Cash flows from investing activities			
Payments for investments		(5,077)	(9,828)
Proceeds from sale of investments		15,844	14,120
Net cash inflow/(outflow) from investing activities		**10,767**	**4,292**
Cash flows from financing activities			
Receipts from issue of units to unitholders		57	310
Payments for redemption of units to unitholders		(11,779)	(11,534)
Distributions paid		(2,738)	(3,403)
Net cash inflow/(outflow) from financing activities		**(14,460)**	**(14,627)**
Net increase / (decrease) in cash and cash equivalents		(398)	(752)
Cash and cash equivalents at beginning of the year		615	1,367
Cash and cash equivalents at end of the financial year	10	**217**	**615**

Notes to the financial statements have been included in the accompanying pages.

Notes to the Financial Statements

1. General information

APN Property for Income Fund No. 2 (the "Fund") is a registered managed investment scheme domiciled in Australia. APN Funds Management Limited ("APN FM") (ACN 080 674 479) is the Responsible Entity of the Fund. The address of its registered office and principal place of business is as follows:

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

1.1 Reclassification of net assets attributable to unitholders from a financial liability to equity

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. To allow the Fund to elect into the AMIT tax regime the Fund's Constitution was amended and, effective 1 July 2017, the remaining requirements for this election were met. Consequently, the net assets attributable to unitholders (i.e. represented by the units in the Fund) have been reclassified from a financial liability to equity on 1 July 2017. See note 7 for further information.

2. Significant accounting policies

2.1 Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. Compliance with Australian Accounting Standards 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 of the Responsible Entity on 16 August 2018.

2.2 Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain investments and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such as basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

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

2.3 Income recognition

Income is measured at the fair value of the consideration received or receivable.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a time proportionate basis taking into account the effective yield on the financial asset.

AASB 15 *Revenue from Contracts with Customers*, applying to annual periods beginning on or after 1 January 2018, requires an entity to recognise revenue in a manner that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. The Fund's main sources of income are distributions, interest income and fair value gains from investments. All of these are outside the scope of the new revenue standard. As a result, the Fund does not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

2.4 Taxation

The Fund is a "flow-through" entity for Australian income tax purposes and has elected into the Attribution Managed Investment Trusts rules from the 2018 income year, such that the determined trust components of the Fund will be taxable in the hands of the beneficiaries (the unitholders) on an attribution basis.

Accordingly, 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/losses which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements.

Realised capital losses are not attributed to unitholders but instead are retained within the Fund to be offset against 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 attributed to unitholders as noted above.

2.5 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 method is employed to determine the fair value of investments:

- Listed equities and investment schemes are recorded at the quoted closing price on relevant stock exchanges.
- Unlisted equities and investment schemes are recorded at the net asset value determined and advised by the relevant external fund 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.

2.6 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.

2.7 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. 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.

The carrying amount of the financial asset is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2.8 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term investments in money market with original maturities of three month or less, bank overdrafts and money market funds with daily liquidity and all highly liquid financial instruments that mature within three months of being purchased.

2.9 Goods and services tax

Revenues, expenses, assets and liabilities 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.

2.10 Distributions

In accordance with the Fund's Constitution, the Fund fully attributes its taxable income to unitholders by way of a cash distribution or distribution reinvestment into the Fund.

Distributions are payable monthly.

2.11 Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable. Redemptions from the Fund are recorded net of any exit fees payable.

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.

2.12 Expenses

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

2.13 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.

3. Adoption of new and revised Accounting Standards

3.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

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:

- AASB 1048 *Interpretation of Standards*

- AASB2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

3.2 Standards and Interpretations in issue not yet adopted

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.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2014-1 *Amendments to Australian Accounting Standards (Part E – Financial Instruments]*, AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*	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 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*, and AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*	1 January 2018	30 June 2019
Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018	30 June 2019
Interpretation 23 *Uncertainty over Income Tax Treatments, AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*	1 January 2019	30 June 2020

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.

Standard / Interpretation	Effective for annual reporting periods beginning on or after
None noted	

4. Receivables

	2018 $'000	2017 $'000
Goods and services tax recoverable	5	9
Expense recoveries – MER rebates	97	73
Unsettled trades	219	-
	321	**82**

5. Trade and other payables

	2018 $'000	2017 $'000
Accounts payable	65	76
Accrued expenses	18	7
	83	**83**

6. Distributions paid and payable

	2018		2017	
	Cents per unit	**$'000**	**Cents per unit**	**$'000**
Distribution paid during the year	5.9587	2,576	5.9587	3,203

Distribution payable	0.5417	207	0.5417	263
	6.5004	**2,783**	**6.5004**	**3,466**

7. Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund classifies a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017 the Fund classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. On 1 July 2017, the Fund elected into the AMIT tax regime. To allow the Fund to elect into the AMIT regime the Fund's Constitution was amended and, effective 1 July 2017, the remaining AMIT election requirements were met.

As a result of the AMIT election, on and from 1 July 2017, the Fund's puttable instruments now meet the definition of a financial liability to be classified as equity, resulting in the reclassification of net assets attributable to unitholders from liabilities to equity and the reclassification of distributions paid from a finance cost in the statement of profit or loss and other comprehensive income to distributions paid in the statement of changes in equity.

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	2018 Units	2017 Units
Units on issue		
On issue at beginning of the year *	48,477,071	58,020,195
Applications	50,230	264,810
Redemptions	(10,386,032)	(9,905,281)
Units issued upon reinvestment of distributions	87,829	97,347
On issue at year end *	**38,229,098**	**48,477,071**

	2018 $'000	2017 $'000
Movements in net assets attributable to unitholders		
At beginning of the year	54,500	71,072
Applications	56	310
Redemptions	(11,794)	(11,518)
Units issued upon reinvestment of distributions	99	114
Distributions paid and payable	(2,783)	(3,466)
Profit / (loss) for the year	4,967	(2,012)
Net assets attributable to unitholders *	**45,045**	**54,500**

* As noted above. net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017.

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.

8. Auditor's remuneration

	2018 $	2017 $
Audit and review of financial statements	14,932	15,796
Other non-audit services *	11,984	12,387
	26,916	**28,183**

** Other non-audit services include compliance plan audit and other approved advisory services.*

The auditor of the Fund is Deloitte Touche Tohmatsu.

9. Related party transactions

9.1 Transactions with key management personnel

The Fund does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Fund and its controlled entities. As such there are no staff costs included in the statement of profit or loss and other comprehensive income.

No fees have been paid to the directors of APN Funds Management Limited in their capacity as directors of the Responsible Entity of the Fund.

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.

9.2 Transactions with the Responsible Entity and related body corporates

The Responsible Entity and Manager of APN Property for Income Fund No 2 is APN Funds Management Limited ("APN FM") (ACN 080 674 479). APN FM's 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 / Manager have taken place at arm's length and in the ordinary course of business. These transactions are as follows:

	2018 $'000	2017 $'000
Investment management fees	488	618
Registry fees	100	128
Accounting fees	41	41
Expense recoveries – MER rebates	(245)	(234)
Expense recharges	74	104
	458	**657**

9.3 Investments in related parties

The Fund may acquire investments in entities that are also managed by APN Property Group Limited or its related bodies corporate (Related Parties), in accordance with its Product Disclosure Statements. Details of investments by the Fund in Related Parties are set out below:

	Number of units held	
	2018	**2017**
APN European Retail Property Group	-	340,004
Convenience Retail No. 1 (formerly known as APN Property Plus Portfolio)	-	1,202,337
Convenience Retail REIT	109,442	-
APN Regional Property Fund	345,000	345,000
Industria REIT	167,605	396,605
	622,047	**2,283,946**

	Number of units held	
	2018	**2017**
Clive Appleton	9,077	9,077

10. Cash and cash equivalents

10.1 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.

	2018 $'000	2017 $'000
Cash and cash equivalents	217	615

Total cash and cash equivalents	**217**	**615**

10.2 Reconciliation of profit / (loss) for the year to cash flows from operating activities

	2018 $'000	2017 $'000
Net profit / (loss)	4,967	-
Profit / (loss) attributable to unitholders	-	(2,012)
Net profit / (loss) attributable to unitholders	**4,967**	**(2,012)**
Non-cash items:		
Net loss / (gain) on disposal of investments	1,212	11,945
Net fair value (gains) / losses	(2,589)	(728)
Changes in net assets:		
Increase / (decrease) in receivables	(292)	522
(Increase) / decrease in payables	(3)	(144)
Net cash provided by operating activities	**3,295**	**9,583**

10.3 Non-cash financing and investing activities

During the year, distributions paid totalling $99,000 (2017: $114,000) were reinvested by unitholders for additional units in the Fund.

11. Financial and Risk Management

The Responsible Entity is responsible for ensuring a prudent risk management culture is established for the Fund. This is reflected in the adoption of a Risk Management Framework that clearly defines risk appetite and risk tolerance limits which are consistent the Fund's investment mandate.

The Fund's Manager is responsible for overseeing the establishment and implementation of appropriate systems, controls and policies to manage the Fund's risk. The focus is on ensuring compliance with the approved Risk Management Framework whilst seeking 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 and relatively high level of income combined with some capital growth sourced from an appropriately wide spread of property-based revenue streams. The Fund invests primarily in Australian listed property securities, unlisted property trusts, property syndicates, cash/fixed interest. The Fund does not invest in direct property and has policies/limits 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 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 effective design and operation of the risk management systems, controls and policies is overseen by the Responsible Entity and its Audit, Risk and Compliance Committee.

Risk management in respect to financial instruments is achieved via written policies that establish risk appetite and tolerance limits in respect to exposure to interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. Compliance with these policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

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 income.

11.1 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 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 other than those imposed by *Corporations Act 2001*. The Fund's overall investment strategy remains unchanged from the prior year.

11.2 Financial instruments

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

- cash and cash equivalents;
- receivables;
- investments in listed and unlisted equities and funds; and
- payables.

Transactions in these instruments expose the Fund to a variety of financial risks including market risk (which includes interest rate risk and other price risks), credit risk, liquidity risk and currency risk. The Fund does not enter into or trade financial instruments, including derivatives (e.g. currency hedging or contracts for difference) for speculative purposes.

11.3 Categories of financial instruments

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

	2018 $'000	2017 $'000
Financial assets		
Cash and bank balances	217	615
Fair value through profit or loss – held for trading	43,982	53,153
Loans & receivables	1,157	1,082
Financial liabilities		
Financial liabilities – at amortised cost	(311)	(351)

11.4 Market risk (including interest rate 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 prices. The 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, price risk and currency risk.

11.4.1 Interest rate risk

The Fund's interest bearing financial assets 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 its total investments in cash and fixed interest securities.

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 markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

The following table illustrates the effect on net profit / (loss) from a change in market risk that is reasonably possible based on the risk the Fund was exposed to at the reporting date.

			Effect on net profit	
	Change in variable 2018 (+ / -)	**Change in variable 2017 (+ / -)**	**2018 $'000**	**2017 $'000**
Interest rate risk	25 bp	25 bp	2	5

An increase/(decrease) in interest rates will result in an increase/(decrease) in net profit respectively.

11.5 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 unitholders, including outstanding receivables and committed transactions.

Credit risk controls assess the credit quality of the counterparty, 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 risk of financial loss from default. The Fund's investment objective is to find high quality counterparties predominately with a stable credit history. The Fund measures credit risk on a fair value basis.

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.

The maximum exposure to credit risk as at 30 June 2018 and 30 June 2017 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 or 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.

Distributions receivable 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 2018, no receivables were impaired nor past due (2017: $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:

	2018 $'000	**2017 $'000**
Ageing analysis of receivables not impaired:		
0-30 days	34	70
31-90 days	802	931
91+ days	-	-
	836	**1,001**

Credit risk associated with receivables is considered minimal. Other receivables balances are not significant to the Fund's operations. The Fund has determined the impact of AASB 9 *Financial Instruments*, effective 1 July 2018, to be immaterial as the Fund's investments are carried at fair value through profit or loss. Regarding the expected loss model under AASB 9, the Fund expects the impact to be immaterial based on the Fund's past experience of collecting distribution and dividend income and that the counterparties are experienced both listed and unlisted security funds.

11.6 Liquidity risks

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 without materially affecting the price realised. 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 tradeable 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.

Units on issue 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. As the Fund is currently considered liquid in accordance with the *Corporations Act 2001*, 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 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**
2018					
Liabilities					
Accounts payable	(83)	-	-	-	(83)
Distribution payable	(207)	-	-	-	(207)
Redemption payable	(21)	-	-	-	(21)
	(311)	**-**	**-**	**-**	**(311)**

	Less than 3 months $'000	**3 months to 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
2017					
Liabilities					
Accounts payable	(83)	-	-	-	(83)
Distribution payable	(263)	-	-	-	(263)
Redemption payable	(5)	-	-	-	(5)
	(351)	**-**	**-**	**-**	**(351)**

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

11.7 Price risk

The Fund has investments in equity instruments, which exposes it to 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 Manager manages the Fund's price 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 profit and loss and other comprehensive income, all changes in market conditions will directly affect investment income.

The following table illustrates the effect on net profit from possible change in price risk that were reasonably possible based on the risk the Fund was exposed to at reporting date.

			Effect on net profit	
	Change in variable 2018 (+ / -)	**Change in variable 2017 (+ / -)**	**2018 $'000**	**2017 $'000**
Price risk	10%	10%	4,398	5,315

An across the board increase/(decrease) in market price will result in an increase/(decrease) in net profit/(loss) respectively.

11.8 Fair value of financial instruments

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2018, grouped into Levels 1 to 3 (as defined at section 2.2) based on the degree to which the fair value is observable:

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
30 June 2018				
Financial assets at FVTPL				
Listed equities and listed funds	41,044	-	-	41,044
Unlisted equities and unlisted funds	-	-	2,938	2,938
Total	**41,044**	**-**	**2,938**	**43,982**
30 June 2017				
Financial assets at FVTPL				
Listed equities and listed schemes	47,626	-	-	47,626
Unlisted equities and unlisted schemes	-	-	5,527	5,527
Total	**47,626**	**-**	**5,527**	**53,153**

Reconciliation of Level 3 fair value instruments of financial assets

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

	2018 $'000	**2017 $'000**
Opening balance	**5,527**	**6,822**
Total gains / (losses)		
- in profit or loss (realised)	307	(16,414)
- in profit or loss (unrealised)	(957)	10,639
Purchases	131	4,480
Sales	(2,070)	-
Transfers into/out of Level 3	-	-
Closing balance	**2,938**	**5,527**

As at 30 June 2018, there were no transfers in or out of level 3 of the fair value hierarchy (2017: $nil).

Valuation technique(s) and inputs used

Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Level 1	Quoted market prices in active markets		
Level 2	Quoted prices in inactive markets, including dealer quotations or alternative pricing sources supported by observable inputs		
Level 3	Latest available prices provided by the investment managers of these investments.	Underlying net asset value per unit/share. These are calculated by the investment managers of the underlying investments 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.	A 1% change in the underlying NAV would have increased / decreased net profit by $29,380 (2017: $55,270), and this would be primarily driven by a change in the underlying property values in the funds.

12. Contingent liabilities and contingent assets

There are no commitments and contingencies in effect at 30 June 2018 (2017: $nil).

13. Subsequent events

There has not been any matter or circumstance occurring subsequent to 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.