Convenience Retail REIT No. 2

(formerly APN Retail Property Fund)

ARSN 619 527 829

Annual Report for the Financial Period Ended 30 June 2017

Directors' report

The directors of APN Funds Management Limited (ACN 080 674 479) ("the Responsible Entity") submit herewith the annual financial report of Convenience Retail REIT No. 2 ("the Fund") for the period ended 30 June 2017. 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 period are:

Name

Geoff Brunsdon (Chairman and Independent Director)
Howard Brenchley (Non-Executive Director)
Michael Johnstone (Independent Director)
Jennifer Horrigan (Independent 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 Fund was registered with the Australian Securities and Investments Commission (ASIC) on 6 June 2017. It began operations on 16 December 2016 and was an unregistered wholesale fund from 16 December 2016 to 5 June 2017. As such there are no comparative figures.

The principal activity of the Fund is to invest in quality properties that are primarily retail properties or fuel outlets, which offer relatively secure income streams and have the potential for capital growth.

The Fund did not have any employees during the period.

Changes in state of affairs

The Fund was established as APN Retail Property Fund on 16 December 2016. It was renamed Convenience Retail REIT No. 2 when it was registered with ASIC on 6 June 2017.

During the financial period there was no other significant change in the 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 periods 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

The principal investment objective of the Fund is to provide investors with a high and consistent income distribution that maintains its real value for the life of the Fund.

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 loss for the period ended 30 June 2017 was $4,737,000.

Distributions

In respect of the financial period ended 30 June 2017 a final distribution of 1.850 cents per unit was paid to the unitholders on 25 July 2017. The total distribution paid to unitholders in respect of the financial period ended 30 June 2017 was 4.042 cents per unit.

For full details of distributions paid and payable during the period, 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

In accordance with a Product Disclosure Statement issued on 28 June 2017, the assets of the Fund were combined with a larger portfolio of properties (via the stapling of its units to units of two other property funds) and successfully listed on the Australian Stock Exchange on 27 July 2017 as Convenience Retail REIT (ASX ticker: CRR). Convenience Retail REIT comprises Convenience Retail REIT No. 1, Convenience Retail REIT No. 2 and Convenience Retail REIT No. 3.

There has not been any other matter or circumstance that has arisen since the end of the financial period 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.

Fund information in the directors' report

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

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

The number of interests in the Fund issued during the financial period, withdrawals from the Fund during the financial period, and the number of interests in the Fund at the end of the financial period is disclosed in note 7 to the financial statements.

The value of the Fund's assets as at the end of the financial period is disclosed in the Statement of Financial Positon 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 period; 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 period 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 Limited ('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.

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, 17 August 2017

Deloitte.

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17 August 2017

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

Dear Board Members

Independence Declaration – Convenience Retail REIT 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 Convenience Retail REIT No. 2.

As lead audit partner for the audit of the financial statements of Convenience Retail REIT No. 2 for the financial period ended 30 June 2017, 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 Convenience Retail REIT No. 2

Opinion

We have audited the financial report of Convenience Retail REIT No. 2 *(formerly APN Retail Property Fund)* (the "Fund") which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the period 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 2017 and of its financial performance for the period 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 period ended 30 June 2017, 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.

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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.

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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

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 17 August 2017

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 accordance with International Financial Reporting Standards as referred to in Note 1 to 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, 17 August 2017

Statement of Profit or Loss and Other Comprehensive Income
for the financial period ended 30 June 2017

	Note	2017 $'000
Income		
Rental income		5,118
Interest income		27
Changes in the fair value of investment properties		(6,256)
Other income		70
Total income		**(1,041)**
Expenses		
Investment management fee		388
Registry fee		6
Other expenses		24
Auditor's remuneration	8	13
Net property expenses		70
Finance costs		942
Initial public offering transaction costs		682
Fund establishment costs		1,571
Total expenses		**3,696**
Net loss		**(4,737)**
Other comprehensive income		
Other comprehensive income		-
Total comprehensive loss		**(4,737)**
Earnings per unit		
Basic (cents per unit)	15	(6.82)
Diluted (cents per unit)	15	(6.82)

Notes to the financial statements are included on pages 13 to 25.

Statement of Financial Position
as at 30 June 2017

	Note	2017 $'000
Assets		
Cash and cash equivalents		2,327
Trade and other receivables	2	342
Investment properties	3	106,090
Total assets		**108,759**
Liabilities		
Payables	4	964
Distribution payable	5	1,285
Interest bearing liabilities	6	44,806
Total liabilities		**47,055**
Net assets		**61,704**
Equity attributable to unitholders		
Contributed equity		69,248
Accumulated losses		(7,544)
Total equity	7	**61,704**

Notes to the financial statements are included on pages 13 to 25.

Statement of Changes in Equity
for the financial period ended 30 June 2017

	Contributed equity $'000	Retained earnings / (Accumulated Losses) $'000	Total $'000
Unit applications	**69,248**	**-**	**69,248**
Net loss for the period	-	(4,737)	(4,737)
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**(4,737)**	**(4,737)**
Distributions paid to investors	-	(2,807)	(2,807)
Balance at 30 June 2017	**69,248**	**(7,544)**	**61,704**

Notes to the financial statements are included on pages 13 to 25.

Statement of Cash Flows
for the financial period ended 30 June 2017

	Note	2017 Inflows / (Outflows) $'000
Cash flows from operating activities		
Rental received		4,844
Interest received		23
Other expenses paid		(2,767)
Net cash provided by operating activities	**10(b)**	**2,100**
Cash flows from investing activities		
Payments associated with investment properties		(111,363)
Net cash provided by investing activities		**(111,363)**
Cash flows from financing activities		
Proceeds from issue of units		69,248
Borrowings drawn		45,000
Finance costs paid		(1,136)
Distributions paid		(1,522)
Net cash used in financing activities		**111,590**
Net increase in cash and cash equivalents held		2,327
Cash and cash equivalents at beginning of the financial period		-
Cash and cash equivalents at end of the financial period	**10(a)**	**2,327**

Notes to the financial statements are included on pages 13 to 25.

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, 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 on 17 August 2017.

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

In the application of Australian Accounting Standards 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 circumstances, 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 Australian Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next period are disclosed below and where applicable, in the relevant notes to the financial statements.

The Fund has investment properties with a net carrying amount of $106,090,000 (see note 3), representing estimated fair value. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. In forming these assumptions, the Responsible Entity considered information about current and recent sales activity, current market rents, discount and capitalisation rates for properties similar to those owned by the Fund, as well as independent valuations of the Fund's investment properties.

The accounting policies set out below have been applied in preparing the financial statements for the period ended 30 June 2017. The Fund was registered with the Australian Securities and Investment Commission on 6 June 2017 and began operations on 16 December 2016 (operating as an unregistered wholesale fund from 16 December 2016 to 5 June 2017). As such no comparative figures are presented in these financial statements.

Adoption of new and revised accounting Standards and Interpretations

In the current period, 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 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception

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.

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	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers, 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15, 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)	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
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	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.

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

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 period-end financial report:

(a) Revenue

Rental income arising in the ordinary course of activities is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax levied and is recognised on a straight-line basis over the lease term. Rental income not received at reporting date, is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance.

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) Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment. Receivables may include amounts for interest. 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.

(d) Investment property

Investment properties are properties held to earn rental income and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(e) Expenses

All expenses, including responsible entity fees, are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

(f) Distributions

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

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(n) Provisions

Provisions are recognised when the Fund has a present obligation, 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. Trade and other receivables

	2017 $'000
Accounts receivable	153
Prepaid expenses	186
Interest receivable	3
	342

3. Investment properties

	2017 $'000
Investment properties at fair value	
Carrying amount at the beginning of the period	-
Additions	105,900
Costs associated with investment properties	5,409
Straight line lease revenue recognition	983
Capitalised leasing fees	54
Changes in fair value of investment properties recognised in profit or loss	(6,256)
Carrying amount at the end of the period	**106,090**

Fair value measurement, valuation techniques and inputs

Management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The adopted valuation methodology for investment properties is the income capitalisation method. The Income capitalisation method uses unobservable inputs in determining fair value, as per the table below:

Unobservable inputs

Fair value hierarchy	Fair value at 30 June 2017 $'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 30 June 2017
Level 3	106,090	Income capitalisation method	Net passing rent - $/sqm Net market rent - $/sqm Adopted capitalisation rate	$170 - $1,911 $211 - $1,896 6.50% - 8.50%

Definitions

A definition is provided below for each of the inputs used to measure fair value:

Income capitalisation approach	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure and passing rent reversions.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In a net rent situation the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease for between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.

Valuation process

The aim of the valuation process is to ensure that assets are held at fair value in the Fund's accounts and that the Fund is compliant with applicable regulations (Corporations Act 2001, ASIC) and the relevant Accounting Standards.

The investment portfolio consists of 23 properties located throughout Queensland and New South Wales. All 23 properties were independently valued at 31 May 2017. The Fund's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued. This independent valuation was performed by Jones Lang LaSalle Advisory Services Pty Ltd and dated 31 May 2017. Internal valuations have been performed by the Manager and reviewed and accepted by the Board of Directors of the Responsible Entity.

Appropriate capitalisation rates, based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation valuation.

Sensitivity analysis

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent - $/sqm	Increase	Decrease
Net market rent - $/sqm	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase

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

Leases as lessor

The Fund leases out its investment property under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2017 $'000
Less than one year	7,860
Between one and five year	33,870
More than five year	97,963
	139,693

4. Payables

	2017 $'000
Accounts payable	210
Prepaid rent	709
Accrued expenses	45
	964

5. Distributions paid and payable

		2017
	Cents per unit	**$'000**
Distribution paid during the period	2.192	1,522
Distribution payable	1.850	1,285
	4.042	**2,807**

6. Interest bearing liabilities

	2017 $'000
Secured bank loan	44,806
	44,806

The Fund's Loan to Value Ratio as at 30 June 2017 was 42.42%, within the limit of 50%. The Fund's Interest Cover Ratio as at 30 June 2017 was 4.15 times, within the limit of 2.0 times.

The bank loan is secured by a registered first mortgage over the Fund's investment properties. The facility includes an amount of $194,000 of deferred borrowing costs that have been allocated against the total amount of the facility utilised at balance date. The loan is payable in December 2019 and bears interest payable quarterly.

7. Equity

	2017 Units
Units on issue	
On issue at beginning of the period	-
Applications	69,462,753
Redemptions	-
Units issued upon reinvestment of distributions	-
On issue at period end	**69,462,753**

	2017 $'000
Movements in equity	
At beginning of the period	-
Unit applications	69,248
Unit redemptions	-
Capital raising cost	-
Units issued upon reinvestment of distributions	-
Net profit for the period	(4,737)
Distributions paid to unitholders	(2,807)
Total equity	**61,704**

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

	2017 $
Auditor of the Fund	
Auditing or reviewing the Financial Report	11,897
Other non-audit services*	1,000
	12,897

** Other non-audit services include audit of 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 Convenience Retail REIT 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 arm's length and in the ordinary course of business. Amounts are as follows:

- Investment management fees of $387,507 of which $58,373 was payable at 30 June 2017.
- Registry fees of $5,532 of which $2,493 was payable at 30 June 2017.
- Establishment fee of $651,550 of which $nil was payable at 30 June 2017.
- Other expenses include reimbursement to the Responsible Entity of $235,879 of costs incurred by the Responsible Entity on behalf of the Fund.
- Distributions of $402,550 of which $183,941 was payable at 30 June 2017.

Transactions with APN Property Plus Portfolio (PPP) (the Responsible Entity and Manager of which is also APN Funds Management Limited) have taken place at arm's length and in the ordinary course of business. Amounts are as follows:

- Trade and other receivables includes a reimbursement of costs paid by PPP totalling $153,000 of which $153,000 was receivable at 30 June 2017. These costs were paid by the Fund in connection with the preparation of the PPP Notice of Meeting and Explanatory Memorandum that facilitated the provision of liquidity to PPP investors via the Convenience Retail REIT initial public offering process.

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 period were:

- Geoff Brunsdon (Chairman and Independent Director)
- Howard Brenchley (Non-Executive Director)
- Michael Johnstone (Independent Director)
- Jennifer Horrigan (Independent Director)
- John Freemantle (Company Secretary – resigned 1 December 2016)
- Chantal Churchill (Company Secretary – appointed 1 December 2016)
- 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 2017
Responsible entity and its associates	
APN Property Group Limited	9,942,753

The below key management personnel of the Responsible Entity hold units in the Fund, either directly, indirectly or beneficially on the same terms and conditions as all other unitholders in the Fund.

	Number of units held 2017
Howard Brenchley	100,000

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

	2017 $'000
Cash at bank	2,327
Total cash and cash equivalents	**2,327**

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

	2017 $'000
Net loss	**(4,737)**
Adjustments for:	
Rental income recognised on straight lining basis	(983)
Change in fair value of investment properties	6,256
Amortisation of borrowing costs	42
Interest paid classified as financing activity	1,136
Changes in net assets:	
(Increase) in income and other receivables	(578)
(Increase) in creditors and accruals	964
Net cash provided by operating activities	**2,100**

(c) Non-cash financing and investing activities
During the period no income distributions 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;
- payables; and
- borrowings.

These activities expose the Fund to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate 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 maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth.

The Fund does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. 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.

(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 income 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 Funds 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. There is currently no market on which units may be traded and there are no buy-back, redemption or withdrawal facilities available to unitholders at this present time.

(d) Categories of financial instruments

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

	2017 **$'000**
Loans and receivables	342
Financial liabilities measured at amortised cost	(47,055)

The carrying amount of interest-bearing liabilities as at 30 June 2017 is $45,000,000.

(e) Credit risk

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 2017 is the carrying amounts of financial assets recognised in the balance sheet 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. Cash transactions are limited to financial institutions that meet the Responsible Entity's minimum credit rating criteria. 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.

Receivables are non-interest bearing and are generally on 30 day terms. An impairment loss would be recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2017 no receivables were impaired nor past due. Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The ageing analysis of the Fund's receivables is as follows:

	2017 **$'000**
Ageing analysis of receivables not impaired	
0-30 days	342
31-90 days	-
91+ days	-
	342

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 and the availability of funding through an adequate amount of committed credit facilities. 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;
- has readily accessible standby facilities and other funding arrangements in place; 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.

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. However, as unitholders are unable to withdraw their units at any time, the Fund is not exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Fund's main liquidity risk is its ability to refinance its current borrowings. To assist in mitigating refinancing risk the Responsible Entity is in regular contact with the financial institutions.

The table below shows an analysis of the contractual maturities of key liabilities (based on undiscounted contractual cashflows) which forms part of the Fund's assessment of liquidity risk:

	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	(964)	-	-	-	(964)
Distribution payable	(1,285)	-	-	-	(1,285)
Interest bearing liabilities	(478)	(1,468)	(47,670)	-	(49,616)
	(2,727)	**(1,468)**	**(47,670)**	**-**	**(51,865)**

The Fund is able to sufficiently meet its liquidity obligations through the receipt of rental income, via re-financing of debt or the sale of investment properties where required.

(g) Market risk

Market risk is the risk that the fair value of 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 maximum unitholder value through investment in properties with strong lease covenants, secure income streams and potential for capital growth. There has been no change to the Fund's exposure to market risk or the manner in which it manages and measures the risk. The component of market risk to which the Fund is exposed is interest rate 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.

As at balance date, the Fund's exposure to interest rates is as follows:

- **Assets**: Cash and cash equivalents at fair values of $2,327,000 with a weighted average interest rate of 1.30%.
- **Liabilities**: Interest-bearing liabilities at amortised cost of $44,806,000 with a weighted average interest rate of 3.718%.

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 period 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 debt 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.

For the Fund, a 25 basis point increase in interest rates would have decreased net profit and decreased total equity by $81,809; an equal change in the opposite direction would have increased net profit and increased total equity by $81,809.

(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 profit or loss and other 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;
- 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; and
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Fair value measurements recognised in the statement of financial position

The following provides an analysis of financial instruments that are measured at fair value at 30 June 2017, 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).

During the year, there were no financial liabilities at FVTPL.

During the year, there were no transfers into or out of Level 3.

The Directors consider the carrying amounts of the Fund's financial instruments approximate their fair values.

12. Contingent liabilities and contingent assets

As at 30 June 2017, the Fund had entered into a conditional contract (settlement of which is subject to the successful ASX listing of Convenience Retail REIT) to purchase 63 Raceview Street, Raceview QLD for $9.1 million.

13. Subsequent events

In accordance with a Product Disclosure Statement issued on 28 June 2017, the assets of the Fund were combined with a larger portfolio of properties (via the stapling of its units to units of two other property funds) and successfully listed on the Australian Stock Exchange on 27 July 2017 as Convenience Retail REIT (ASX ticker: CRR). Convenience Retail REIT comprises Convenience Retail REIT No. 1, Convenience Retail REIT No. 2 and Convenience Retail REIT No. 3.

There has not been any other matter or circumstance that has arisen since the end of the financial period 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. Net tangible asset backing

	2017 **$ per unit**
Net tangible asset backing	0.8883

Net tangible asset backing per unit is calculated by dividing the net assets attributable to unitholders by the number of units on issue.

15. Earnings per unit

	2017
Loss attributable to unitholders ($'000)	(4,737)
Weighted average number of units outstanding (thousands)	69,463
Basic and diluted earnings per unit (cents)	**(6.82)**

16. Segment information

(a) Description of segments

The Fund invests in quality properties that are primarily retail properties or fuel outlets which are located in Australia. The Fund has identified its sole operating segment as being this activity, based on internal reporting to the chief operating decision maker. The Fund distinguishes only this activity in its internal reporting.

(b) Major customers

The Fund has one customer from whom it receives all of its rental revenue.

17. Additional information

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Convenience Retail REIT No. 2.

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