SCA Unlisted Retail Fund 2

ARSN: 614 180 237

Financial Report
For the year ended 30 June 2018

SCA Unlisted Retail Fund 2 (SURF 2) is a Managed Investment Scheme. SCA Unlisted Retail Fund RE Limited (SURF RE) (ABN 42 604 416 284, AFSL 473459) is the Responsible Entity of SURF 2 and is incorporated and domiciled in Australia. The registered office of SURF RE is Level 5, 50 Pitt Street, Sydney, New South Wales.

Directors' Report

The Directors of SCA Unlisted Retail Fund RE Limited (SURF RE or the Company), the Responsible Entity for SCA Unlisted Retail Fund 2 (SURF 2 or Trust or Fund), present their report for the year ended 30 June 2018.

SURF 2 was registered as a Managed Investment Scheme on 22 August 2016 and commenced operations on 2 June 2017. The prior period comparatives included in this Financial Report are for the period from 22 August 2016 to 30 June 2017.

1. Directors

The Directors of SURF RE at any time during the year and up to the date of this report are:

Mr Andrew Stevenson	Non-Executive Director (Chair)
Mr David Freiman	Non-Executive Director
Mr Anthony Mellowes	Executive Director
Mr Mark Fleming	Alternate Director for Mr Anthony Mellowes

2. Company Secretary

The Company Secretaries of SURF RE during the whole of the year and up to the date of this report are:

Mr Mark Lamb
Ms Erica Rees

3. Principal activities

The principal activity of the Fund during the year was the management of the two retail properties. SURF 2 is an unlisted closed end unit trust.

4. Financial and operational review

A summary of SURF 2's results for the year are set out below:

	1 July 2017 to 30 June 2018 $'000	22 August 2016 to 30 June 2017 $'000
Net profit / (loss) after income tax	**2,097**	(857)

Net profit / (loss) after income tax measures profit/loss under Australian Accounting Standards (AASBs) and also complies with the International Financial Reporting Standards (IFRS).

Financial Position

	30 June 2018	30 June 2017
Total assets ($'000)	**55,310**	55,560
Net assets ($'000)	**28,380**	28,348
Net assets per unit ($ per unit)	**0.96**	0.96

Distributable Earnings

The Responsible Entity considers Distributable Earnings to be an important indicator of the underlying earnings of SURF 2. Distributable Earnings are detailed below.

	1 July 2017 to 30 June 2018 $'000	22 August 2016 to 30 June 2017 $'000
Net profit / (loss) after tax (statutory)	**2,097**	(857)
Adjustments to net profit / (loss) after tax (statutory) to determine Distributable Earnings		
Reverse movement in non cash items		
-Transaction and establishment costs	-	999
-Amortisation of borrowing costs	**27**	2
-Straight-lining of rental income	**(305)**	(24)
-Fair value adjustments on investment properties	**322**	24
-Fair value adjustments on derivatives	**(19)**	20
Capital payments	**(17)**	-
Distributable Earnings	**2,105**	164

5. Distributions

Distributions to unitholders recognised in the period by SURF 2 are:

30 June 2018 **Period ended**	**Payment date**	**Cents per unit**	**$**
30 September 2017	16 October 2017	**1.75**	**516,250**
31 December 2017	22 January 2018	**1.75**	**516,250**
31 March 2018	20 April 2018	**1.75**	**516,250**
30 June 2018	31 July 2018[1]	**1.75**	**516,250**
Total distributions (Ordinary)		**7.00**	**2,065,000**

1This distribution was declared on 19 June 2018 and the proposed payment date is 31 July 2018

30 June 2017 Period ended	Payment date	Cents per unit	$
30 June 2017	31 July 2017	0.556	164,020
Total distributions (Ordinary)		0.556	164,020

6. Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Trust during the year ended 30 June 2018.

7. Likely developments, key strategies and expected results of operations

At the date of this report, and to the best of the Directors knowledge and belief, there are no anticipated changes in the operations of SURF 2 which would have a material impact on the future results of SURF 2. Further information on likely developments in the operations and the expected results of operations has not been included in this report because the Directors believe it would result in unreasonable prejudice to SURF 2.

8. Units in the Trust

The units on issue in the Trust are disclosed in note 9 of the financial statements. The number of ordinary units as at 30 June 2018 is 29,500,000 (30 June 2017: 29,500,000).

9. Environmental regulations

The Directors are satisfied that adequate systems are in place for the management of the SURF 2's environmental responsibility and compliance with various license requirements and regulations.

Further, the Directors are not aware of any material breaches to these requirements and, to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

10. Indemnification and Insurance of Directors, Officers and Auditor

The constitution of SURF 2 requires it to indemnify all current and former officers of the Trustee out of the property of the Trust against any liability incurred by the officer in or arising out of the conduct of the business of the Trust or arising out of the discharge of the duties of the officer. SURF 2's constitution also provides that in addition to any indemnity under any law, but subject to the Corporations Act 2001, the Responsible Entity has a right of indemnity out of the assets of the Fund on a full indemnity basis, in respect of any liability incurred by the Responsible Entity in properly performing any of its powers or duties in relation to the Fund.

The auditor of the Fund is not indemnified out of the assets of the Fund or the Responsible Entity.

A related party to SURF RE has paid insurance premiums in respect of Directors and Officers. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the liabilities covered by the insurance, the limit of the indemnity and the amount of the premium paid under the contract.

11. Fees paid to and interest held in the Trust by the Responsible Entity or its Associates

Fees paid to the Responsible Entity and its associates out of the Trust property during the year are disclosed in note 13 of the financial statements. No fees were paid out of Trust property to the Directors of the Responsible Entity during the year. These costs are paid by SCA Property Group. The number of interests in the Trust issued to or held by the Responsible Entity or its associates during the year are disclosed in note 13 of the financial statements.

12. Matters subsequent to the end of the financial period

The Directors are not aware of any matters or circumstance that have arisen since 30 June 2018 that have significantly affected or may significantly affect the operations of SURF 2, the result of those operations, or state of affairs in future financial periods.

13. Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

14. Audit and non-audit fees

Details of the amounts paid or payable to the auditor for audit and non-audit services provided are detailed in note 16 of the financial statements.

15. Rounding of amounts to the nearest thousand dollars

The amounts contained in this report and in the financial statements have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Trust under ASIC Corporations (Rounding in the Financial Directors' Reports) Instrument 2016/191. The Trust is an entity to which this Legislative Instrument applies.

This report is made in accordance with a resolution of the Directors.

Director
Sydney
24 July 2018

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Australia

DECLARATION OF INDEPENDENCE BY IAN HOOPER TO THE DIRECTORS OF SCA UNLISTED RETAIL FUND RE LIMITED, AS RESPONSIBLE ENTITY FOR SCA UNLISTED RETAIL FUND 2

As lead auditor of SCA Unlisted Retail Fund 2 for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. No contraventions of any applicable code of professional conduct in relation to the audit.

Ian Hooper
Partner

BDO East Coast Partnership

Sydney, 24 July 2018

SCA Unlisted Retail Fund 2
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2018

	Notes	1 July 2017 to 30 June 2018 $'000	22 August 2016 to 30 June 2017 $'000
Revenue			
Rental income		**4,331**	329
		4,331	329
Expenses			
Administration costs		**(101)**	(16)
Base management fees	13	**(138)**	(11)
Investment management fees	13	**(249)**	(20)
Property expenses		**(411)**	(30)
Transaction and establishment costs	4	**-**	(999)
		(899)	(1,076)
Unrealised fair value movements			
- Investment properties	3	**(322)**	(24)
- Derivatives		**19**	(20)
		(303)	(44)
Earnings before interest and tax (EBIT)		**3,129**	(791)
Interest income		**2**	8
Finance costs	5	**(1,034)**	(74)
		(1,032)	(66)
Profit / (Loss) before income tax		**2,097**	(857)
Income tax expense	2(e)	**-**	-
Profit / (Loss) after income tax expense		**2,097**	(857)
Other comprehensive income		**-**	-
Total comprehensive income		**2,097**	(857)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

SCA Unlisted Retail Fund 2
Statement of Financial Position
As at 30 June 2018

	Notes	30 June 2018 $'000	30 June 2017 $'000
Current assets			
Cash and cash equivalents		**64**	292
Trade and other receivables	6	**146**	157
Total current assets		**210**	449
Non-current assets			
Derivative financial instruments	7	**-**	11
Investment properties	3	**55,100**	55,100
Total non-current assets		**55,100**	55,111
Total assets		**55,310**	55,560
Current liabilities			
Trade and other payables		**457**	135
Related party payables	13	**-**	303
Distribution payable	14	**516**	164
Derivative financial instrument	7	**1**	31
Total current liabilities		**974**	633
Non-current liabilities			
Borrowing	8	**25,956**	26,579
Total non-current liabilities		**25,956**	26,579
Total liabilities		**26,930**	27,212
Net assets		**28,380**	28,348
Equity			
Contributed equity	9	**29,369**	29,369
Accumulated loss		**(989)**	(1,021)
Total equity		**28,380**	28,348

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

SCA Unlisted Retail Fund 2
Statement of Changes in Equity
For the year ended 30 June 2018

	Notes	Contributed equity $'000	Accumulated loss $'000	Total equity $'000
Balance at 1 July 2017		**29,369**	**(1,021)**	**28,348**
Profit after income tax expense		-	2,097	2,097
Other comprehensive income		-	-	-
Total comprehensive income		-	**2,097**	**2,097**
Distributions paid/declared	14	-	**(2,065)**	**(2,065)**
Balance at 30 June 2018		**29,369**	**(989)**	**28,380**
Balance at 22 August 2016		-	-	-
Contribution of equity, net of transaction costs		29,369	-	29,369
Loss after income tax expense		-	(857)	(857)
Other comprehensive income		-	-	-
Total comprehensive income		-	(857)	28,512
Distributions paid/declared		-	(164)	(164)
Balance at 30 June 2017		29,369	(1,021)	28,348

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2018

	Notes	1 July 2017 to 30 June 2018 $'000	22 August 2016 to 30 June 2017 $'000
Cash flows from operating activities			
Rental revenue received (inclusive of GST)		**4,485**	305
Property expenses paid (inclusive of GST)		**(420)**	(76)
Interest received		**2**	8
Finance and borrowing costs paid		**(1,037)**	(135)
Transaction and establishment costs paid (inclusive of GST)		**(335)**	(910)
Base management fee paid (inclusive of GST)		**(152)**	-
Investment management fee paid (inclusive of GST)		**(273)**	-
Administration costs paid (inclusive of GST)		**(116)**	-
Net cash flows from / (used in) operating activities	11	**2,154**	(808)
Cash flows from investing activities			
Payments for investment properties purchased	3	**-**	(55,100)
Payments for capital improvements (inclusive of GST)		**(19)**	-
Net cash flows used in investing activities		**(19)**	(55,100)
Cash flows from financing activities			
Proceeds from borrowings	8	**1,250**	26,700
Repayment of borrowings	8	**(1,900)**	-
Distributions paid to unithlders	14	**(1,713)**	-
Proceeds from applications by unit holders	9	**-**	29,500
Net cash flows (used in) / from financing activities		**(2,363)**	56,200
Net movement in cash and cash equivalents held		**(228)**	292
Cash and cash equivalents at the beginning of the year/period		**292**	-
Cash and cash equivalents at the end of the year/period		**64**	292

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

1. Corporate information

SCA Unlisted Retail Fund 2 (SURF 2 or Trust or Fund) was formed on 22 August 2016 and was registered as a Managed Investment Scheme with the Australian Securities & Investments Commission on 22 August 2016. SURF 2 is an unlisted closed end unit trust constituted in Australia. On 2 June 2017 SURF 2 commenced activities with the acquisition of two retail properties in regional New South Wales. There were no activities by SURF 2 prior to 2 June 2017.

The nature of its operations and principal activity are described in the Directors' Report.

The financial statements are presented in Australian dollars, which is SURF 2's functional and presentation currency.

SCA Unlisted Retail Fund RE Limited (SURF RE or the Responsible Entity) is the Responsible Entity of SURF 2. SURF RE is a public company incorporated in Australia. The address of its registered office and principal place of business is:

Level 5, 50 Pitt Street
Sydney NSW 2000

SURF RE is a wholly owned subsidiary of Shopping Centres Australasia (SCA Property Group). SCA Property Group is listed on the Australian Stock Exchange (ASX) (ASX Code: SCP).

SURF RE has appointed Shopping Centres Australasia Property Group RE Limited to act as custodian of SURF 2's assets. The custodian must only act on instructions from the Responsible Entity.

The Directors of the Responsible Entity have authorised the Financial Report for issue on 24 July 2018. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

The principal accounting policies which have been adopted in the preparation of these financial statements have been set out below. These policies have been consistently applied during the year and comparative period.

2. Significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

SURF 2 is a for-profit unit trust for the purpose of preparing the financial statements. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on the basis of historical cost, except for, where applicable, the revaluation of investment properties and derivative financial instruments.

Going concern

The Financial Statements have been prepared on the going concern basis. In preparing the Financial Statements the Directors note the Trust is in a net current asset deficiency position due primarily to the provision for distribution and related party payables and minimal cash and cash equivalents as it is the practice to use surplus cash to reduce debt drawn on the revolving debt facility. As at 30 June 2018 the Trust has the ability to drawdown funds of $1,050,000 (30 June 2017: $400,000) on the debt facility which is greater than the current asset deficiency.

New and revised Accounting Standards not yet effective

A number of Australian Accounting Standards and Interpretations are in issue but are not effective for the current period. The Responsible Entity does not intend to adopt any of these announcements before their effective dates. The significant standards and interpretations which are in issue but are not effective for the current period include:

Standard/Interpretation	Effective for annual reporting periods beginning on or after:	Expected to be initially applied in the financial period ending:
AASB 15 Revenue from Contracts with Customers (as deferred by *AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15*) – The changes in this Standard include replacing the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core intended principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The transitional provisions of this Standard permit an entity to restate the contracts that existed in each prior period presented per *AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in *AASB 15*. The Fund's lease agreements are the source of the substantial majority of the Fund's revenue. Based on a preliminary review of the lease agreements it is expected that the recognition of this type of revenue by the Fund will not have a material impact on the financial results, however some changes in the presentation and quantification of certain revenue items and additional disclosure may be required, mainly in relation to recoverable outgoings.	1 January 2018	30 June 2019
AASB 9 Financial Instruments (and associated Amending Standards) - The changes in this Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments, new rules for hedge accounting and a new methodology for measurement of impairment of financial assets including accounting for expected credit loss. The key changes that may affect the Fund on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives and upfront accounting for expected credit loss. During the current year the Fund did not use hedge accounting and the Fund has had no credit loss to date. Based on a preliminary review of the instruments used by the Fund and on the basis of the existing financial classification of these instruments, the recognition and measurement of these instruments is not expected to change. On the basis that this remains the case, it is anticipated that the financial statements of the Fund will not be significantly impacted by these amendments.	1 January 2018	30 June 2019
AASB 16 Leases - When effective, this Standard will replace the current accounting requirements applicable to leases in *AASB 117: Leases and related Interpretations*. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. During the current year the Fund was not a lessee. On the basis this remains the case, it is anticipated that the financial statements of the Fund will not be significantly impacted when this change is effective.	1 January 2019	30 June 2020

At the date of report, there are no pronouncements approved by the IASB/IFRIC that have yet to be issued by the AASB.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to SURF 2 and can be reliably measured. Rental income from operating leases is recognised as income on a straight line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned. If not received at the reporting date, revenue is reflected in the statement of financial position as receivable and carried at its recoverable amount. Recoveries from tenants are recognised as income in the period the applicable costs are accrued.

All other revenues are recognised on an accrual basis.

(c) Expenses

All expenses are brought to account on an accruals basis.

Under the Constitution of SURF 2, all expenses reasonably and properly incurred by SURF RE as Responsible Entity in connection with the Trust or in performing its obligations under the Trust's Constitution are payable or can be reimbursed out of SURF 2.

(d) Finance costs

Finance costs include interest payable on short term and long term borrowings, payments on derivatives and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

Finance costs are expensed in the period in which they are incurred.

(e) Taxation

Under current income tax legislation, SURF 2 is not liable for income tax, provided that the taxable income is fully distributed to unitholders each year. SURF 2 fully distributes its taxable income, calculated in accordance with the Trust Constitution and applicable legislation, to unit holders who are presently entitled to income under the constitution.

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST (or equivalent tax in overseas locations) except where the GST incurred on purchases of goods and services is not recoverable from the tax authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amounts of GST included. The net amount of GST receivable 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 within operating cash flows.

(g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short term deposits with an original maturity of 90 days or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Trade and other receivables

Trade and other receivables are carried at cost, less provision for doubtful debts, and are usually due within 30 days. Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are determined to be uncollectable are written off when identified.

(j) Investment properties

Investment properties comprise investment interest in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are stated at fair value. Gains and losses arising from changes in the fair values of investment properties are recognised in profit and loss in the period in which they arise.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

At each reporting date, the carrying values of the investment properties are assessed by the Directors and where the carrying value differs materially from the Directors' assessment of fair value, an adjustment to the carrying value is recorded as appropriate.

The Directors' assessment of fair value of each investment property takes into account latest independent valuations, with updates taking into account any changes in estimated yield, underlying income and valuations of comparable properties. In determining the fair value, the capitalisation of net income method and / or the discounting of future net cash flows to their present value have been used, which are based upon assumptions and judgements in relation to future rental income, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties.

Incentives such as cash, rent-free periods, lessee or lessor owned fit outs may be provided to lessees to enter into an operating lease. Leasing fees may also be paid for the negotiation of leases. These incentives and lease fees are capitalised to the investment property and are amortised on a straight-line basis over the lesser of the term of the lease and the useful life of the fitout, as a reduction of rental income. The carrying amounts of the lease incentives and leasing fees are reflected in the fair value of investment properties.

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. Changes in the fair value of any derivative instruments are recognised immediately in the statement of profit or loss and other comprehensive income.

(l) Recoverable amount of assets

At each reporting date, an assessment is made as to whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the recoverable amount is estimated and if the carrying amount of that asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(m) Trade and other payables

Trade and other payables are carried at amortised cost, and due to their short term nature, they are not discounted.

(n) Borrowings

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

(o) Contributed equity

Applications received for units in the Trust are recognised as contributed equity at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary units are recognised in equity as a reduction of the proceeds received.

(p) Distributions

The Trust distributes its distributable income, in accordance with the Trust's Constitution, to unitholders by cash or reinvestment. The distributions are recognised when declared during the financial period.

(q) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in a normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(r) Performance fee liability

The Investment Manager (Shopping Centres Australasia Property Operations Pty Ltd, a related party to the Responsible Entity) is entitled to a performance fee of 20% of the portion of outperformance of SURF 2 over an IRR of 10%. The performance fee calculation period is from 22 August 2016 (22 August 2016 was the date SURF 2 commenced operation) to the first performance fee calculation date. The performance fee calculation dates include the termination of SURF 2 or the sale of the last property of SURF 2. A performance fee liability is recognised when the amount can be reliably measured.

(s) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on various other factors, including expectations of future events, management believes to be reasonable under the circumstances. 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 and in any future periods affected.

The critical accounting judgements and estimates used in the preparation of these financial statements are outlined below.

Valuation of investment properties

Critical estimates are made by the Directors in respect of the fair value of investment properties. The fair value of these investments are reviewed by Directors with reference to independent and internal property valuations, recent transactions and market conditions existing at reporting date, using generally accepted market practices. The major critical assumptions underlying estimates of fair values are those relating to the capitalisation rate and to a lesser extent, the discount rate. Other assumptions of lesser importance include net passing rent, gross market rent, net market rent, average market rental growth, and terminal yield. If there is any change in these assumptions or economic conditions, the fair value of the investment properties may differ. See further disclosure regarding assumptions used in valuation of investment properties in note 3.

Valuation of financial instrument

The fair value of derivatives are based on assumptions of future events and involve significant estimates. The basis of valuation for the Fund's derivatives are set out in note 7. The value of derivatives may differ in future reporting periods due to the passing of time and / or changes in market rates including interest rates and market volatility.

(t) Fair value measurement

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

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

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

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

(u) Rounding of amounts

The Fund is a kind referred to in Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

3. Investment properties

	30 Jun 2018 $'000	30 Jun 2017 $'000
Movement in total investment properties		
Opening balance	**55,100**	-
Acquisitions	-	55,100
Straight-lining of rental income net of amortisation	**305**	24
Additions to investment properties	**17**	-
Fair value movement on investment properties	**(322)**	(24)
Closing balance	**55,100**	55,100

Property details	**Cost[2] $'000**	**Book value cap rate[1] 30 Jun 2018**	**Book value 30 Jun 2018 $'000**	Book value 30 Jun 2017 $'000
Katoomba Marketplace	44,700	6.50%	**44,700**	44,700
Mittagong Shopping Village	10,400	6.25%	**10,400**	10,400
Total Investment Properties	55,100		**55,100**	55,100

1 Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal.
2 The cost disclosed is the same as the external valuation of these properties as at March 2017.

Valuation process

All properties are required to be internally valued every six months with the exception of those valued externally. All properties are required to be externally valued at least every 3 years.

The internal valuations are performed by utilising the information from a combination of existing leases and forecasting tools. Appropriate capitalisation rate, terminal yield and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation based valuation and a discounted cash flow valuation. If there are any changes in these assumptions or economic conditions, the fair value of the investment properties may differ.

The internal valuations are prepared by the Investment Manager. The Investment Manager is Shopping Centres Australasia Property Operations Pty Ltd, a related party to the Responsible Entity. The Investment Manager recommends each property's valuation to the Directors in accordance with the Fund's internal valuation policy. The valuation of the investment properties are Director valuations as at 30 June 2018 based on internal valuations prepared by the Investment Manager.

Fair value measurement, valuation technique and inputs

The investment properties fair values presented are based on market values, which are derived using the capitalisation and / or the discounted cash flow methods.

Capitalisation method

Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal. The net operating income is determined considering the estimated gross passing income after adjustment for anticipated operating costs, potential future income from existing vacancies and an on-going vacancy and bad debt allowance.

This produces a net income on a fully leased basis which is capitalised in perpetuity from the valuation date at an appropriate investment yield. The adopted percentage rate investment yield reflects the capitalisation rate (cap rate) and includes consideration of a number of other factors including the property type, location and tenancy profile together with market sales.

Discounted cash flows (DCF)

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate discount rate is applied to establish the present value of the income stream associated with the real property. The discount rate is the rate of return used to convert a monetary sum, payable or receivable in the future, into present value. The rate is determined with regards to market evidence and the prior independent valuation.

Fair value is assessed with reference to reliable estimates of future cash flows, status of the development and the associated risk profile.

The table below summarises the valuation techniques used and the key input including the range of key inputs used to measure fair value.

Category	Fair value hierarchy	Carrying value 30 June 18 $'000	Valuation technique	Key inputs used to measure fair value	Range of unobservable inputs
Investment Properties	Level 3	55,100	Income capitalisation and discounted cash flow	Cap rate and Discount rate	6.25%-6.50% 6.75%

All property investments are categorised as level 3 in the fair value hierarchy (refer note 12 for additional information in relation to the fair value hierarchy). There were no transfers between hierarchy levels.

Sensitivity information

The key inputs to measure fair value of investment properties are disclosed below along with sensitivity to a significant increase or decrease. The following sensitivity to significant inputs applies to investment properties (refer note 2(s)).

Significant Inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase

Sensitivity analysis

When calculating the income capitalisation approach, the net market rent 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. The impact on the fair value of an increase in the net market rent could potentially offset the impact of an increase (softening) in the adopted capitalisation rate. 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 would magnify the impact to the fair value.

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

Other inputs or factors also impact a valuation. These factors are many and include market rental reversion, current rental, property expenses, capital expenditure, and tenant incentives.

The Investment Manager has considered these factors and believes the most significant input to fair value of investment properties at balance date is the capitalisation rate as the capitalisation rate is in line with the Investment Manager's understanding of the market practice at which the price is determined for similar properties. Notwithstanding that capitalisation rate is the most significant input, movements in one or more of other factors above may impact the valuation.

Sensitivity analysis – capitalisation rate

A sensitivity analysis of the impact on the investment property valuations of movements in the capitalisation rate is disclosed below as the capitalisation rate method is the primary method for conducting the valuation. While other factors do also impact a valuation, at the current time, the Investment Manager considers that the valuations are most sensitive to movements in the capitalisation rate.

The following sensitivity analysis shows the effect on profit/loss after tax and on equity of a 25 basis points (bps) increase/decrease in capitalisation rates at balance sheet date with all other variables held constant.

	Profit / (loss) after tax		**Equity**	
	25 bps increase $'000	**25 bps decrease $'000**	**25 bps increase $'000**	**25 bps decrease $'000**
30 June 2018				
Investment Properties	**(2,081)**	**2,248**	**(2,081)**	**2,248**
30 June 2017				
Investment Properties	(2,076)	2,243	(2,076)	2,243

4. Transaction and establishments costs

	1 July 2017 to 30 June 2018 $'000	22 August 2016 to 30 June 2017 $'000
Advisory and consultant fees (excluding GST)	-	173
Fund establishment fee (excluding GST) (refer Note 13)	-	826
	-	999

Transaction and establishment costs relate to costs associated with the formation of SURF 2. Refer note 13 for additional information on the fund establishment fee.

5. Finance costs

	1 July 2017 to 30 June 2018 $'000	22 August 2016 to 30 June 2017 $'000
Interest expense on borrowings including swap costs	1,007	72
Amortisation of establishment fees	27	2
	1,034	74

6. Trade and other receivables

Trade and other receivables relate predominantly to rent receivable. As at 30 June 2018 and 30 June 2017 respectively there was no significant rent receivable greater than 30 days past due.

7. Derivative financial instruments

The fair value of interest rate derivatives is determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observable market rates.

The following table represents financial liabilities that were measured and recognised at fair value at reporting date.

	30 June 2018 $'000	30 June 2017 $'000
Non-current assets		
Interest rate swap	-	11
Current liabilities		
Interest rate swap	1	31

The value of the interest rate swaps at 30 June 2018 was a current liability of $1,000 (30 June 2017: net liability $20,000). Movements in the market value of the interest rate swaps are included in the Fund's profit and loss through changes in fair value.

The three different fair value measurement levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs from the assets or liability that are not based on observable market data (unobservable inputs).

Interest rate derivatives are financial instruments that use valuation techniques with observable market data and are included as Level 2 in the hierarchy above.

SURF 2 does not have any Level 3 financial instruments. There were no transfers between levels during the period.

8. Borrowing

Unrestricted access was available at the reporting date to the secured bank loan. Details of this loan are below:

	30 June 2018 $'000	30 June 2017 $'000
Non-current liabilities		
Bank loan	**26,050**	26,700
Establishment fees	**(94)**	(121)
Total non-current borrowings	**25,956**	26,579

	30 June 2018 $'000	30 June 2017 $'000
Total bank loan facility limit	**27,100**	27,100
Less: Amounts drawn at the reporting date	**(26,050)**	(26,700)
Net borrowing facility available	**1,050**	400

A major Australian bank has provided SURF 2 with a debt facility for the purpose of partially funding the acquisition of the property portfolio. The secured debt facility is revolving and multi-purpose. The loan is secured by that bank over the property of the Fund. The loan limit is $27,100,000 and expires in April 2022. SURF 2 entered into an interest rate swap in March 2017 to fix financing costs for approximately half of the loan facility amount for a period of two years commencing 5 July 2017. The interest rate swap expires on 5 June 2019 and has a face value of $13,600,000.

Debt Covenants

The Fund is required to comply with certain financial covenants and obligation in respect of the secured debt facility. The major financial covenants and obligations can be summarised as follows:

(a) Interest Cover Ratio (ICR): is at least 1.75 times. ICR is defined as being EBITDA (excluding non-recurring amounts and non-cash amounts) to net interest expense.
(b) Loan to Value Ratio (LvR): is not more than 55%. LvR is defined as being based on the amounts drawn as a percentage of the most recent external property valuations.

The Fund was in compliance with its financial covenants and other obligations for the year ended and as at 30 June 2018.

9. Contributed equity

	30 June 2018 $'000	30 June 2017 $'000
Units fully paid 29,500,000	**29,500**	29,500
Less: equity raising costs	**(131)**	(131)
Closing balance	**29,369**	29,369

The offer to invest in SURF 2 opened on 19 April 2017 and closed on 1 June 2017. 29,500,000 units in SURF 2 were issued and allocated on 2 June 2017 at $1.00 per unit raising $29,500,000 in equity.

10. Operating leases

All investment properties owned by the Trust (detailed in note 3) are subject to operating leases. The investment properties are leased to anchor tenants under long term leases with rentals payable monthly. Other lease terms can vary for each lease.

The main tenant of the two properties is Woolworths Limited trading as either Woolworths Supermarkets, Big W (both of which are trading from the one property), and Dan Murphy's. The rent paid (excluding outgoings) by the single largest customer of the Fund (Woolworths Limited) is $3,700,000 (or greater than 93% of the total rent).

For the Woolworths Limited lease and the Dan Murphy's lease, the key terms are as follows:

Property	Tenancy	Lease expiry date	Remaining lease options
Katoomba Marketplace	Woolworths Limited trading as Woolworths Supermarkets and Big W	October 2035	4 * 10 year options
Mittagong Shopping Village	Woolworths Limited trading as Dan Murphy's	October 2032	4 * 10 year options

Additionally the base rent for these tenancies can be subject to fixed periodic increases of up to 5% at the rent review date. The rent review date is typically every 5 years from the lease start or renewal.

All leases the Fund has with Woolworths Limited include provision for additional rent in the form of sales turnover rent. Where sales turnover rent applies, it is payable annually in arrears where the sum of the initial rent and the turnover rent percentage amount for a year exceeds the sum of the base rent. No turnover rent has been received or was paid or is payable by Woolworths Limited for the period ended 30 June 2018.

For other tenancies lease terms would commonly be for shorter periods such as five years with provisions for annual reviews which typically comprise either CPI based increases, fixed percentage increases or market reviews. Optional lease extensions exercisable by the tenant are also relatively common. Specialty leases incorporate provisions for reporting of sales turnover and may include payment of turnover rent if appropriate.

No turnover rent was received for the period ended 30 June 2018 for other tenancy leases.

Minimum Lease payments receivable (excluding outgoings) under non-cancellable operating leases of investment properties are shown on the following table.

	30 June 2018	30 June 2017
	$'000	$'000
Within one year	**3,886**	3,820
Between one and five years	**15,799**	15,482
After five years	**51,522**	55,413
	71,207	74,715

11. Notes to the statement of cash flows

Reconciliation of profit to net cash flows from operating activities is as follows:

	1 July 2017 to 30 June 2018 $'000	22 August 2016 to 30 Jun 2017 $'000
Net profit / (loss) after income tax	2,097	(857)
Non-cash flows		
- Fair value movement on investment properties	322	24
- Fair value movement on financial liabilities	(19)	20
- Straight lining of rental income	(305)	(24)
Changes in assets / liabilities		
Movement in borrowings - net amortisation / (capitalisation) of establishment fees	27	(121)
Movement in trade and other receivables	12	(157)
Movement in trade and other payables	20	438
Less amounts in trade and other payables relating to equity raising costs payable (refer note 9)	-	(131)
Net cash flows from / (used in) operating activities	2,154	(808)

12. Financial instruments

Financial risk and capital management

(a) Capital risk management

The Fund's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents, interest-bearing loans and borrowings and contributed equity of the Fund (comprising contributed equity and retained earnings).

The Fund assesses the adequacy of its capital requirements, cost of capital, LvR and gearing (i.e. debt/equity mix).

The Fund continuously reviews its capital structure to ensure:

- Sufficient funds and financing facilities, on a cost effective basis, are available to assist the Fund's business; and
- Sufficient liquidity buffer is maintained.

The Fund can alter its capital structure by issuing new units.

(b) Financial risk management

The Fund's activities expose it to a variety of financial risks, including:

(i) credit risk
(ii) liquidity risk
(iii) market risk (including foreign exchange risk and interest rate risk)

The Fund seeks to minimise the effects of these risks by monitoring its exposure to these risks and assessments of market forecasts.

(b)(i) Financial risk management - credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the Fund. The Fund has exposure to credit risk on all financial assets included in its statement of financial position.

The Fund is exposed to credit risk from cash placed with a financial institution. This financial institution has a credit rating of AA- (Standard & Poor's).

Exposure to customer credit risk is also monitored. Woolworths Limited is a major tenant of the Fund representing greater than 93% of rent received. Woolworths credit rating is BBB (Standard & Poor's). Other tenants represent the remainder of rent received.

The Fund's exposure to credit risk is summarised in the following table:

	30 June 2018	30 June 2017
	$'000	$'000
Cash and cash equivalents	**64**	292
Receivables	**146**	157
	210	449

The maximum exposure of the Fund to credit risk as at 30 June 2018 is the carrying value of the financial assets in its statement of financial position.

(b)(ii) Financial risk management - liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund aims at having flexibility in funding by keeping sufficient cash and/or committed credit lines available whilst maintaining a low cost of holding these facilities. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The Fund manages liquidity risk through monitoring its net expected funding needs including the maturity of its debt portfolio. The Fund also manages liquidity risk by maintaining a liquidity buffer of cash and undrawn debt facilities.

The debt facility is a bank secured debt facility. Details of the debt facility, including debt facility available, is at note 8.

Refinancing risk, also part of liquidity risk, is the risk that the maturity profile of the debt makes it difficult to refinance maturing debt, and/or that the cost of refinancing exposes the Fund to potentially unfavourable market conditions at any given time. The Fund is exposed to refinancing risks arising from the availability of finance as well as the interest rates and credit margins at which financing is available. The Fund intends to manage this risk, where appropriate, by refinancing borrowings in advance of the maturity of the borrowing and by securing longer term facilities.

Non-derivative financial instruments

The contractual maturities of the Fund's non-derivative financial liabilities at year end are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest, margin, and line fees at the reporting date. Interest rates are based on the interest rates as at the reporting date.

	1 year or less	Between 1 to 3 years	Over 3 years	Total
	$'000	$'000	$'000	$'000
30 June 2018				
Trade and other payables	**457**	-	-	**457**
Distribution payable	**516**	-	-	**516**
Borrowings	-	-	**26,050**	**26,050**
	973	-	**26,050**	**27,023**
30 June 2017				
Trade and other payables	438	-	-	438
Distribution payable	164	-	-	164
Borrowings	-	-	26,700	26,700
	602	-	26,700	27,302

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

(b)(iii) Financial risk management - market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Fund's financial performance or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters, while optimising the return.

Market risk - foreign exchange risk

The Fund has no foreign currency denominated assets or liabilities at the reporting date and therefore the Fund is not exposed to any significant foreign exchange risk.

Market risk - interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate due to changes in market interest rates.

The Fund is exposed to interest rate risk as it borrow funds at floating interest rates. This risk is managed through the use of interest rate swap contracts. Hedging activities are evaluated regularly.

The Fund's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Exposure to cash and cash equivalents is limited to $64,000 (30 June 2017: $292,000).

Interest rate swap contracts

The Fund's interest rate risk arises from borrowings and cash holdings. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates or from fixed to floating. The Fund has entered into an interest rate swap contract with a notional principal amount of $13,600,000 which expires in June 2019. Under the interest rate swap contract, the Fund agrees with the other party to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to an agreed notional principal amount.

The Fund's secured debt facility is at floating rates. Borrowings with floating rates expose the Fund to cash flow interest rate risk. The Fund's preference is to be protected from interest rate movements in the two to five year term through appropriate risk management techniques. These techniques include using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The requirements under Australian accounting standards in respect of documentation, designation and effectiveness for hedge accounting cannot be met in all circumstances. As a result the Fund does not apply hedge accounting for any derivatives as at 30 June 2018.

The Fund's exposure to interest rate risk and the effective interest rates on financial assets and liabilities at reporting date are in the table below.

	Interest Rate (floating)	1 year or less $'000	Between 1 to 3 years $'000	Over 3 years $'000	Total $'000
30 June 2018					
Financial Assets					
Cash and cash equivalents	1.1%	64	-	-	64
Trade and other receivables	-	146	-	-	146
Financial Liabilities					
Trade and other payables	-	457	-	-	457
Borrowings	3.9%	-	-	25,956	25,956
Distribution payable	-	516	-	-	516
Total net financial liabilities		763		25,956	26,719
30 June 2017					
Financial Assets					
Cash and cash equivalents	1.1%	292	-	-	292
Trade and other receivables	-	157	-	-	157
Financial Liabilities					
Trade and other payables	-	438	-	-	438
Borrowings	3.6%	-	-	26,579	26,579
Distribution payable	-	164	-	-	164
Total net financial liabilities		153	-	26,579	26,732

The maturity profile and the weighted average interest rate of the fixed derivatives (notional principal) held at 30 June 2018 (represented by an interest rate swap which expires on 30 June 2019) by the Fund can be summarised below.

30 June 2018	**June 2019**	**June 2020**
Interest rate swap (fixed) - $'000	**13,600**	**-**
Average fixed rate - %	**1.94%**	**-**
30 June 2017	June 2018	June 2019
Interest rate swap (fixed) - $'000	13,600	13,600
Average fixed rate - %	1.94%	1.94%

Sensitivity analysis – interest rate risk

The following sensitivity analysis shows the effect on profit/(loss) after tax and equity if the interest on the debt (net of the swap) had been 100 basis points higher/lower for a full year with all other variables held constant.

	Profit / (loss) after tax		Equity	
	100bp higher $'000	100bp lower $'000	100bp higher $'000	100bp lower $'000
30 June 2018 - Effect of market rate interest movement	(124)	124	(124)	124
30 June 2017 - Effect of market rate interest movement	(128)	128	(128)	128

(c) Accounting classifications and fair values

The fair value of interest rate derivatives is determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observing market rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

The following table represents financial assets and liabilities that were measured and recognised at fair value as at 30 June 2018.

	30 June 2018 $'000	30 June 2017 $'000
Current liabilities		
Interest rate swap	1	31
Non-current assets		
Interest rate swap	-	11

Fair value hierarchy

The Fund is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement.

Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed can be subjective.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis of the use of observable inputs that require significant adjustments based on unobservable inputs.

There were no transfers between levels during the period.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The interest rate swap is an interest rate derivative and is also a financial instrument not quoted in active markets. For the interest rate swap the Fund uses valuation techniques such as present value, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Interest rate derivatives are financial instruments that use valuation techniques with only observable market inputs and are included in Level 2 above.

The Fund does not have any Level 1 or 3 financial instruments. Details of level 3 assets (investment properties) during the financial period and details of unobservable inputs and sensitivity are set out in note 3.

13. Related party transactions

The Responsible Entity of SURF 2 is SCA Unlisted Retail Fund RE Limited (ABN 42 604 416 284) (SURF RE). SURF RE is part of the SCA Property Group. The SCA Property Group comprises Shopping Centres Australasia Property Group RE Limited (ABN 47 158 809 851) as responsible entity of Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788) (Retail Trust). All fees and charges from the Responsible Entity and its related parties are in accordance with the Product Disclosure Statement (PDS) dated 19 April 2017 and the Trust's constitution. Transactions with entities associated to SCA Property Group are disclosed below. Transactions with related parties have taken place at arm's length and in the ordinary course of business.

(a) Purchase of properties

On 2 June 2017 SURF 2 purchased two properties from SCA Property Group for $55,100,000. The purchase was in line with market values based on independent valuations of the property portfolio as at March 2017.

(b) Establishment fees

During the prior period establishment fees of $826,500 (excluding GST) were paid to Shopping Centres Australasia Property Operations Pty Limited (Investment Manager) (ACN 160 890 433) as the Investment Manager of SURF 2. Upon the raising of the Total Offer Amount, the Manager was entitled to an establishment fee which reflects 1.5% of the property value at that time. This was recognised in the prior period as part of the transaction and establishment costs in the Fund's statement of profit or loss and other comprehensive income.

(c) Investment Management Fees

Investment management fees are 0.45% per annum of gross asset value payable monthly in arrears. During the period investment management fees of $249,017 (excluding GST) were payable to Shopping Centres Australasia Property Operations Pty Limited (ACN 160 890 433) as the Investment Manager of SURF 2 (30 June 2017: $20,106).

Total accrued investment management fees of $20,725 (excluding GST) are recognised in trade and other payables in the statement of financial position (30 June 2017: $20,106).

(d) Base management fees

Base management fees are 0.25% per annum of gross asset value payable monthly in arrears. During the period base management fees of $138,343 (excluding GST) were payable to the Responsible Entity during the financial year (30 June 2017: $11,170).

Total accrued base management fees of $11,514 (excluding GST) are recognised in trade and other payables in the statement of financial position (30 June 2017: $11,170).

(e) Recharge of expenses

SURF RE and the Investment Manager have the right to recover from the Fund the expenses properly incurred by SURF RE or the Manager from the Fund. The Investment Manager is part of SCA Property Group. In practice the Fund has paid all such expenses directly except for certain formation expenses which were recharged. The relevant formation expenses have been recognised as part of the transaction and establishment costs in the Fund's statement of profit or loss and other comprehensive income.

(f) Performance fee

The Investment Manager will be entitled to a performance fee of 20% of the portion of the outperformance of SURF 2 over an IRR of 10% per annum. A performance fee liability has not been recognised as at 30 June 2018 (30 June 2017: nil) as any potential performance fee cannot be reliably measured.

(g) Directors fees

No fees were paid or are payable by SURF 2 to the directors of the Responsible Entity during the period. These costs are paid by SCA Property Group. Refer to note 17.

(h) Related Party Unit Holdings and Distributions

Holdings of units by related parties:

	30 June 2018 Units	30 June 2017 Units
Shopping Centres Australasia Property Retail Trust	**8,447,000**	8,447,000

The units held by the Shopping Centres Australasia Property Retail Trust rank pari passu with the other units on issue in SURF 2 and have been held by the Retail Trust since allotment (2 June 2017). The distributions paid or payable to the Retail Trust for the period are in the table below:

30 June 2018

Period Ended	**30 Sep 2017**	**31 Dec 2017**	**31 Mar 2018**	**30 Jun 2018**
Number of units held	8,447,000	8,447,000	8,447,000	8,447,000
Distribution per unit - cents	1.75	1.75	1.75	1.75
Amount paid or payable - $	147,822	147,822	147,822	147,822
Date paid or payable[1]	16 Oct 2017	22 Jan 2018	20 Apr 2018	31 Jul 2018[1]

[1] This distribution was declared on 19 June 2018 and the proposed payment date is 31 July 2018

30 June 2017

Period Ended	**30 June 2017**
Number of units held	8,447,000
Distribution per unit - cents[1]	0.556
Amount paid or payable - $	46,965
Date paid or payable	31 Jul 2017

[1] The first distribuition was for the part period ended 30 June 2017

The Fund did not hold any interests in related parties at the reporting date or throughout the current year.

(i) Custodian expense

The Responsible Entity has appointed Shopping Centres Australasia Property Group RE Limited (SCAPG RE) to provide custody services for SURF 2. SCAPG RE is a related party of SURF RE. The agreement to provide custody services by SCAPG RE has been made on standard commercial terms and in accordance with the Responsible Entity's Related Party Transactions Policy. The fee for the custodian services is the minimum of 0.015% of assets or $15,000 pro rata from the commencement of SURF 2. The fee for the year ending 30 June 2018 is $15,000 (30 June 2017: $1,192) (excluding GST).

(j) Trade and other payables related party

As part of establishing SURF 2 during the prior period, the Investment Manager incurred various costs including accounting, legal, valuation, tax and marketing costs. These costs were payable by the Fund to the Manager after the commencement of SURF 2. The amount of these costs was $303,000. These costs were accrued in the prior period and were invoiced and reimbursed during the year ended 30 June 2018. The amount payable was non interest bearing and was otherwise on terms which are normal for a trade amount payable.

14. Distribution paid or payable

30 June 2018

Period ended	**Payment date**	**Cents per unit**	**$**
30 September 2017	16 October 2017	**1.75**	**516,250**
31 December 2017	22 January 2018	**1.75**	**516,250**
31 March 2018	20 April 2018	**1.75**	**516,250**
30 June 2018	31 July 2018[1]	**1.75**	**516,250**
Total distributions (Ordinary)		**7.00**	**2,065,000**

[1] This distribution was declared on 19 June 2018 and the proposed payment date is 31 July 2018

30 June 2017

Period ended	Payment date	Cents per unit	$
30 June 2017	31 July 2017	0.556	164,020
Total distributions (Ordinary)		0.556	164,020

15. Commitments and contingencies

The Trust has a distribution payable of $516,250 as at 30 June 2018 (30 June 2017: $164,020) which is expected to be paid on 31 July 2018.

As at 30 June 2018 the Trust has no other capital commitments, contingent liabilities or assets (30 June 2017: nil).

16. Auditors remuneration

During the year, all amounts paid or payable to the auditor of the Fund, BDO East Coast Partnership, by SCA Unlisted Retail Fund 2 for the year were:

	1 July 2017 to 30 June 2018	22 August 2016 to 30 June 2017
Audit and review of financial statements	**27,500**	16,500
Assurance and compliance services	**3,000**	3,000
Investigative Accountant Report (Product Disclosure Statement dated 19 April 2017)	**-**	42,300
	30,500	61,800

17. Key management personnel

Key management personnel of the Responsible Entity are those persons having authority and responsibility for planning directing and controlling the activities of the Fund, directly or indirectly, including any Director.

Key management personnel are employed by a related company to the Fund, Shopping Centres Australasia Property Operations Pty Limited. No compensation is paid by the Fund to any of the key management personnel of the Responsible Entity.

18. Events after the reporting period

A final distribution for the period to 30 June 2018 of 1.75 cents per unit was declared on 19 June 2018 and is expected to be paid on 31 July 2018. This distribution has been reflected as a payable in the statement of financial position as at 30 June 2018. Refer to note 14 and 15 for details.

The Directors are not aware of any other matters or circumstance that have arisen since 30 June 2018 that have significantly affected or may significantly affect the operations of SURF 2, the result of those operations, or state of SURF 2's affairs in future financial periods.

* * *

In the opinion of the Directors of SCA Unlisted Retail Fund RE Limited, the Responsible Entity of SCA Unlisted Retail Fund 2 (SURF 2):

(a) The attached financial statements and notes are in accordance with the Corporations Act 2001, including;
   (i) giving a true and fair view of SURF 2's financial position as at 30 June 2018 and of its performance for the financial year then ended; and
   (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations), the Corporations Regulations 2001, and other mandatory professional reporting requirements;

(b) There are reasonable grounds to believe that SURF 2 will be able to pay its debts as and when they become due and payable.

The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Director
Sydney
24 July 2018

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of SCA Unlisted Retail Fund 2

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of SCA Unlisted Retail 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 and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of SCA Unlisted Retail Fund 2, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; 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 *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 of SCA Unlisted Retail Fund RE Limited, as responsible entity for SCA Unlisted Retail Fund 2, would be in the same terms if given to the directors of the responsible entity 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 are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors' Report, 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 accordingly 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 on the other information obtained prior to the date of this auditor's report, 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 of the responsible entity of the Fund 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 of the responsible entity are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the responsible entity 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO East Coast Partnership

BDO

Ian Hooper
Partner

Sydney, 24 July 2018