Elanor Retail Property Fund

Annual Report 2017

Auburn Central, Sydney, NSW

ELANOR RETAIL PROPERTY FUND

Annual Report 2017

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FINANCIAL CALENDAR

December 2017	Estimated interim distribution announcement and securities trade ex-distribution
February 2018	Interim results announcement
March 2018	Interim distribution payment
June 2018	Estimated final distribution announcement and securities trade ex-distribution
August 2018	Full-year results announcement
September 2018	Final distribution payment
September 2018	Annual tax statements

RESPONSIBLE ENTITY

Elanor Funds Management Limited ABN 39 125 903 031. AFSL 398196.

HIGHLIGHTS

CORE EARNINGS
for the financial year 2017

$8.67m

DISTRIBUTIONS
(per security)

6.40c

SECURITY PRICE
at 30 June 2017

$1.37

PORTFOLIO VALUE
at 30 June 2017

$260.8m

NET ASSET VALUE
(per security)

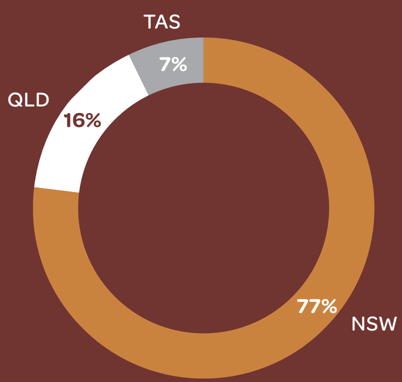
$1.42

GEARING
at 30 June 2017

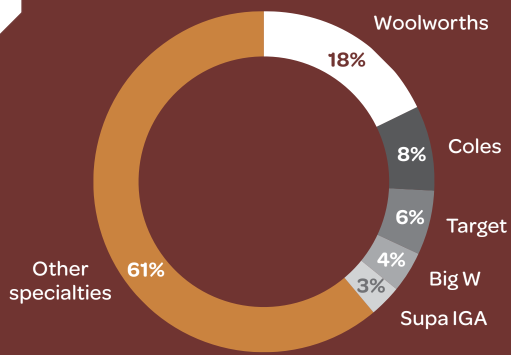
29.3%

ELANOR RETAIL PROPERTY FUND'S OWNED AND MANAGED INVESTMENTS

GEOGRAPHIC DIVERSIFICATION[1]



KEY TENANTS[2]



1. By asset value
2. By base rent

MESSAGE FROM THE CHAIRMAN

On behalf of the Board, I am pleased to present Elanor Retail Property Fund's Annual Report, including its Financial Statements for the year ended 30 June 2017.

Paul Bedbrook
Chairman

The period from listing on 9 November 2016 to 30 June 2017 represents our inaugural reporting period. It has been a successful period, both in terms of achieving our financial objectives and executing the Fund's strategy.

The Fund is an externally managed real estate investment fund investing in Australian retail property, with a focus on high investment quality neighbourhood and sub-regional shopping centres. The Fund's objective is to provide investors with strong income returns and capital growth from both the existing portfolio and retail properties that may be acquired in the future.

I am pleased to confirm that the Fund's strategy and performance forecasts set out in the Product Disclosure Statement at the IPO of the Fund in November 2016 have been delivered. The Fund has delivered core earnings of $8.7 million for the period and has distributed $8.2 million, or 6.40 cents per security.

ACHIEVEMENTS

Since IPO, the value of the Fund's portfolio has grown from $243.2 million to $260.8 million at year end, driven by an increase of $17.5 million or 7.2% in the value of the portfolio over the eight month period. The portfolio value as at 30 June 2017 represents a weighted average capitalisation rate of 7.2%.

In July 2017, the Fund acquired the Gladstone Square Shopping Centre for $31.5 million, taking the value of the portfolio to $292.3 million. This acquisition increases the Fund's annualised forecast distribution yield by 3% (or 20 basis points) in addition to improving the geographic diversification, portfolio WALE, occupancy and debt maturity of the Fund.

The Fund has maintained its conservative capital structure with a gearing level of 36.6% following the acquisition of Gladstone Square Shopping Centre. This gearing level is within the Fund's stated target range of 30% to 40%.

We are of the view that these achievements confirm the Fund's status as a low risk retail REIT that represents strong value and delivers a sector leading yield.

OUTLOOK

The Fund's strategy will remain focused on managing and growing earnings from its investment portfolio and acquiring additional high investment quality retail properties. The Fund is strongly positioned to enhance value for security holders.

I wish to thank my fellow Board members, our executive leadership team and the Fund team led by Michael Baliva, for their dedication, enthusiasm and hard work.

Finally, thank you to all Elanor Retail Property Fund security holders for your continued support and confidence. We look forward to growing value for security holders into the future.

Yours sincerely,

Paul Bedbrook
Chairman, Elanor Investors Group

CEO'S MESSAGE

I am pleased to present Elanor Retail Property Fund's Annual Report for its first reporting period.

Glenn Willis
Managing Director and
Chief Executive Officer

We have delivered on the Fund's strategy and performance expectations since listing. We are firmly of the view that the Fund represents a low risk retail REIT that will generate strong value and provide a sector leading yield to security holders.

STRATEGY

During the period from the Fund's IPO on 9 November 2016 we have achieved our PDS forecasts and all key financial and strategic objectives. The Fund's strategy is to:

- Invest in retail properties that provide stable earnings from rental income across a diversified retail tenant mix, with a strong focus on non-discretionary retailers;
- Implement leasing and other active asset management initiatives to grow the income and value of the retail properties;
- Acquire additional high investment quality retail properties with a significant component of non-discretionary retailers;
- Implement development and repositioning strategies in the Portfolio; and
- Optimise the capital structure for the Fund based on a conservative approach to gearing.

KEY RESULTS

- Core earnings for the period of $8.7 million or 6.7 cents per security, in line with the PDS forecast
- Distributions for the period were $8.2 million or 6.40 cents per security, reflecting a payout ratio of 95% of core earnings, in line with the PDS forecast
- Net Tangible Assets (NTA) per security of $1.42 as at 30 June 2017

INVESTMENT PORTFOLIO

The Fund has delivered on its strategy to grow and enhance the value of the portfolio. In particular, the highly active asset management approach through leasing and other asset management initiatives has grown both the income and value of the portfolio. Some of the key asset management achievements include:

- Completion of a significant number of leasing initiatives across the portfolio, notably the successful execution of the specialty remixing strategy at Auburn Central (this has increased the non-discretionary retail component at the centre and led to significantly improved centre performance);
- Leasing of a 900 square metre commercial space at Auburn Central for 10 years;
- Investment of $1 million into a car park management system at Auburn Central, generating an ROI of 36% (in addition to improving the performance of the centre);
- Implementation of tenant remixing strategies at Tweed Mall and Northway Plaza centres; and
- Completion of the strategic plan for the portfolio including the significant mixed use development strategy for Tweed Mall.

This has resulted in:

- $17.6 million (7.2%) increase in portfolio valuation to $260.8 million at 30 June 2017, reflecting a weighted average capitalisation rate of 7.2%;
- NTA per security increasing by 13.8% since listing from $1.25 to $1.42; and
- Portfolio occupancy strengthening to 99.0% (including rental guarantees) from 96.7% at IPO.

Additionally, on 31 July 2017, the Group completed the acquisition of the Gladstone Square Shopping Centre at a purchase price of $31.5 million. Gladstone Square is a recently refurbished, single level neighbourhood shopping centre centrally located in the Gladstone CBD. The centre is anchored by an extensively refurbished and expanded Woolworths supermarket with a new 20 year lease, expiring in May 2036. As a result of this acquisition, the Group's investment portfolio increased to $292.3 million.

CEO'S MESSAGE

continued

Manning Mall, Taree, NSW

The acquisition of Gladstone Square is consistent with the Group's strategy of achieving accretive growth through the acquisition of high investment quality neighbourhood and sub-regional shopping centres with a significant component of non-discretionary retailers.

Each of the portfolio properties present strong operational and strategic opportunities to further increase the Fund's value. We are focused on executing initiatives to deliver this inherent value, consistent with our urgent and highly active approach to asset management.

CAPITAL MANAGEMENT

The Fund is focused on maintaining a conservative capital structure with a target gearing range of between 30% and 40%. At 30 June 2017, the Fund's gearing was 29.3%, below the target range. Following the acquisition of Gladstone Square, the Fund's gearing of 36.6% remains within the target range.

OUTLOOK

The Fund's core strategy will remain focused on actively managing and growing earnings from its investment portfolio, and acquiring additional high investment quality retail properties.

During the forthcoming year, the Fund anticipates completing the disposal of non-core podium strata lots at Auburn Central (this process commenced in August 2017). The net proceeds from the sale of these lots will be reinvested into accretive, high investment quality shopping centre acquisitions, consistent with the Fund's strategy. The Fund is also considering further asset recycling opportunities.

The Fund is strongly positioned to enhance value for security holders. The active asset management of the existing portfolio is generating improved operational performance and returns. Furthermore, unlocking the embedded value of the Fund's assets from the successful implementation of strategic initiatives will increase the capital value of the portfolio.

I wish to thank my executive leadership team and the Fund's management team led by Michael Baliva for their commendable efforts and achievements over the period.

Yours sincerely,

Glenn Willis
Managing Director and
Chief Executive Officer,
Elanor Investors Group

Tweed Mall, Tweed Heads, NSW

FINANCIAL REPORT

for the year ended 30 June 2017

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DIRECTORS' REPORT

Directors' Report

The Directors of Elanor Funds Management Limited (Responsible Entity or Manager), as responsible entity of the Elanor Retail Property Fund I and Elanor Retail Property Fund II, present their report together with the consolidated financial report of Elanor Retail Property Fund (Group, Consolidated Group or Fund) and the consolidated financial report of the Elanor Retail Property Fund I (ERPF I Group) for the year ended 30 June 2017 (period).

The financial report of the Consolidated Group comprises Elanor Retail Property Fund II (ERPF II) and its controlled entities, including Elanor Retail Property Fund I (ERPF I) and its controlled entities. The financial report of the ERPF I Group comprises Elanor Retail Property Fund I and its controlled entities.

The Responsible Entity is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 38, 259 George Street, Sydney NSW 2000.

ERPF I and ERPF II were registered as managed investments schemes on 13 October 2016. The units of ERPF I and the units of ERPF II are combined and issued as stapled securities in the Group. The Group's securities are traded on the Australian Securities Exchange (ASX: ERF), having listed on 9 November 2016. The units of each scheme cannot be traded separately and can only be traded as stapled securities. Although there is no ownership interest between ERPF I and ERPF II, ERPF II is deemed to be the parent entity of the Group in accordance with the Australian Accounting Standards.

The Directors' report is a combined Directors' report that covers both schemes. The financial information for the Group is taken from the consolidated financial reports and notes.

1. Directors

The following persons have held office as Directors of the Responsible Entity during the period and up to the date of this report:

- Paul Bedbrook (Chair)
- Glenn Willis (Managing Director and Chief Executive Officer)
- Nigel Ampherlaw
- William (Bill) Moss AO

2. Principal activities

The principal activities of the Fund are the investment in Australian retail properties, with the focus predominantly on quality, high yielding neighbourhood and sub-regional shopping centres.

3. Distributions

Distributions relating to the year ended 30 June 2017 comprise:

Distributions	Year Ended 30 June 2017
Interim Distribution	
Amount paid (cents per stapled security)	1.4
Payment Date	3 March 2017
Final Distribution	
Amount payable (cents per stapled security)	5.0
Payment Date	1 September 2017

A provision for the Final Distribution has not been recognised in the financial statements for the period as the distribution had not been declared at the reporting date. The total Distribution for the period from listing to 30 June 2017 of 6.4 cents is in line with the forecast Distribution of 6.4 cents per stapled security as set out in the Product Disclosure Statement (PDS) of the Group dated 14 October 2016.

DIRECTORS' REPORT

continued

4. Operating and financial review

OVERVIEW AND STRATEGY

The Fund is an externally managed real estate investment fund investing in Australian retail property, focusing on high investment quality neighbourhood and sub-regional shopping centres.

The Fund's objective is to provide investors with strong, stable and growing income returns and capital growth in the asset portfolio, and in other retail properties that may be acquired in the future. To achieve this objective, the Fund's strategy is to:

- Invest in retail properties that provide stable earnings from rental income across a diversified retail tenant mix, with a strong focus on non-discretionary retailers;
- Implement leasing and active asset management to grow the income and value of the retail properties;
- Acquire additional high investment quality retail properties with a significant component of non-discretionary retailers;
- Implement development and repositioning strategies in the Portfolio and in additional retail properties acquired in the future; and
- Optimise the capital structure for the Fund based on a conservative approach to gearing.

INVESTMENT PORTFOLIO

The following table shows the Group's investment portfolio as at balance date:

Property	Location	Type	Valuation $'m
Auburn Central	Auburn, NSW	Sub-regional shopping centre	95.0
Tweed Mall	Tweed Heads, NSW	Sub-regional shopping centre	86.5
Manning Mall	Taree, NSW	Sub-regional shopping centre	43.0
Glenorchy Plaza	Glenorchy, TAS	Sub-regional shopping centre	19.8
Northway Plaza	Bundaberg, QLD	Neighbourhood shopping centre	16.5
Total investment portfolio			**260.8**

On 31 July 2017, the Group completed the acquisition of the Gladstone Square shopping centre at a purchase price of $31.5 million. As a result, the Group's investment portfolio increased to $292.3 million.

Gladstone Square is a recently refurbished, single level neighbourhood shopping centre centrally located in the Gladstone CBD. The centre is anchored by an extensively refurbished and expanded Woolworths supermarket with a new 20 year lease, expiring in May 2036.

The acquisition of Gladstone Square has:

- Extended the Portfolio weighted average lease expiry (WALE) from 4.8 years to 5.3 years;
- Resulted in a Portfolio occupancy level of 98.5%;
- Extended the Group's weighted average debt facility maturity from 2.2 years to 3.0 years, being wholly funded by a new five year finance facility; and
- Extended the weighted average interest rate swap maturity from 3.1 years to 3.7 years, with the new finance facility fully interest rate hedged for five years.

The acquisition of Gladstone Square is consistent with the Group's strategy of achieving accretive growth through the acquisition of high investment quality neighbourhood and sub-regional shopping centres with a significant component of non-discretionary retailers.

DIRECTORS' REPORT

continued

4. Operating and financial review (continued)

FINANCIAL RESULTS

The Group recorded a statutory profit of $11.7 million for the year ended 30 June 2017, including the financial results of ERPF II prior to the IPO on 9 November 2016, and after $10.3 million of transaction and establishment costs associated with the set up and listing of the Fund.

The consolidated profit of the Group since its IPO, from 9 November 2016 to 30 June 2017, was $13.8 million after transaction and establishment costs.

Core Earnings post IPO were $8.7 million or 6.7 cents per stapled security. A Final Distribution of 5.0 cents per stapled security has been declared for the six month period ended 30 June 2017 (95% pay-out ratio on Core Earnings). This is in line with the Fund's forecast included in the PDS. Core Earnings is considered more relevant than statutory profit as it represents an estimate of the underlying recurring cash earnings of the Fund, and has been determined in accordance with ASIC Regulatory Guide 230.

A summary of the Group and ERPF I Group's results for the post IPO period to 30 June 2017 is set out below:

Key financial results	Consolidated 30 June 2017	ERPF I Group 30 June 2017
Net profit / (loss) ($'000)	13,818	3,955
Core Earnings ($'000)	8,668	4,737
Distributions payable to security holders ($'000)	8,235	4,500
Core Earnings per stapled security (cents)	6.73	3.68
Core Earnings per weighted average stapled security (cents)	6.73	3.68
Distributions (cents per stapled security)	6.40	3.50
Net tangible assets ($ per stapled security)	1.42	0.58
Gearing (net debt / total assets less cash) (%)	29%	23%

The table below provides a reconciliation from statutory net profit / (loss) to distributable Core Earnings:

		Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2017 $'000
Statutory net profit / (loss)		**11,732**	**4,357**
Adjustment to remove pre IPO financial results		2,086	(402)
Adjusted net profit / (loss)		**13,818**	**3,955**
Adjustments for items included in statutory profit / (loss):			
Transaction and establishment costs	2	10,294	8,629
Fair value adjustments on investment property		(15,854)	(8,076)
Straight lining of rental income		(228)	(148)
Amortisation expense		638	377
Core Earnings	1	**8,668**	**4,737**

Note 1: Core Earnings has been determined in accordance with ASIC RG 230 and represents the Directors' view of underlying earnings from ongoing operating activities for the period, being net profit / (loss), adjusted for one-off realised items (being formation or other transaction costs that occur infrequently or are outside the course of ongoing business activities), and non-cash items (being fair value movements, amortisation and lease straight-lining).

Note 2: Transaction and establishment costs incurred by the Group through profit and loss relate to the establishment and listing of the Group in November 2016. These costs are:

	Consolidated 30 June 2017 $'000	ERPF I Group 30 June 2017 $'000
Stamp duty and registration costs	5,286	5,286
Acquisition costs including advisers and consultants fees	4,396	3,082
Listing related costs	612	261
Total transaction and establishment costs	**10,294**	**8,629**

DIRECTORS' REPORT

continued

4. Operating and financial review (continued)

SUMMARY AND OUTLOOK

The Fund's core strategy will remain focussed on actively managing and growing earnings from its investment portfolio, and acquiring additional high investment quality retail properties.

Risks to the Fund in the coming year primarily comprise potential earnings variability associated with general economic and market conditions, including retailer demand, domestic retail spending, the availability of capital for acquisition opportunities, any movement in property valuations and possible weather related events. The Fund manages these risks through its active asset management approach across its investment portfolio, continuing to focus on broadening the Fund's tenant mix, insurance arrangements and the active management of the Fund's capital structure.

During the coming year, the Fund anticipates completing the disposal of non-core podium strata lots at Auburn Central, with the process commenced in August 2017. The net proceeds of the sale of these lots will be reinvested into accretive high investment quality shopping centre acquisitions, consistent with the Fund's strategy. The Fund is also considering other asset recycling opportunities in its investment portfolio.

The Fund is committed to growing its investment portfolio through continued review of further high investment quality shopping centre acquisition opportunities.

The Fund is strongly positioned to enhance value for security holders. The active asset management of the existing portfolio is generating improved operational performance and returns and increased capital value from implementation of strategic initiatives.

5. Value of assets

	Consolidated 30 June 2017 $'000	ERPF I Group 30 June 2017 $'000
Value of total assets	267,905	170,650
Value of net assets	182,855	75,195

6. Interests in the Group

The movement in stapled securities of the Group during the year is set out below:

	Consolidated 30 June 2017 '000
Stapled securities from existing ERPF I and ERPF II funds prior to the IPO transaction	47,777
Stapled securities issued as part of the IPO transaction	80,953
Stapled securities on issue at the end of the year	**128,730**

7. Directors

The following persons have held office as Directors of the Responsible Entity during the period and up to the date of this report:

Name	Particulars
Paul Bedbrook	Independent Non-Executive Chairman Paul was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Paul has had a career of over 30 years in financial services, originally as an analyst, fund manager and then the GM & Chief Investment Officer for Mercantile Mutual Investment Management Ltd (ING owned) from 1987 to 1995. Paul was an executive for 26 years with the Dutch global banking, insurance and investment group, ING, retiring in 2010. Paul's career included the roles of: President and CEO of ING Direct Bank, Canada (2000 – 2003), CEO of the ING Australia/ANZ Bank Wealth JV (2003-2008) and Regional CEO, ING Asia Pacific, Hong Kong (2008 – 2010). Paul is currently the Chairman of Zurich Financial Services Australia and its Life, General and Investment Companies, a non-executive director of Credit Union Australia and the National Blood Authority. Former listed directorships in the last three years: None Interest in stapled securities: None Qualifications: B.Sc, F FIN, FAICD
Glenn Willis	Managing Director and Chief Executive Officer Glenn was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Glenn has extensive industry knowledge with over 25 years' experience in the Australian and international capital markets. Glenn was most recently co-founder and Chief Executive Officer of Moss Capital. Prior to Moss Capital, Glenn co-founded Grange Securities and led the team in his role as Managing Director and CEO. Grange Securities was a pre-eminent Australian owned investment bank with businesses in fixed income, equities, corporate finance and funds management. Grange Securities grew to be Australia's major independent fixed income house. After 12 years of growth, Grange Securities, a business with approximately 150 personnel, was acquired by Lehman Brothers International in 2007, as the platform for Lehman's Australian investment banking and funds management operations. Glenn was appointed Managing Director and Country Head in March 2007. In 2008, Glenn was appointed executive Vice Chairman of Lehman Brothers Australia. Glenn previously held senior positions at Fay Richwhite and Challenge Bank. Former listed directorships in the last three years: None Interest in stapled securities: 224,075 Qualifications: B.Bus (Econ & Fin)

DIRECTORS' REPORT

continued

7. Directors (continued)

Name	Particulars
Nigel Ampherlaw	Independent Non-Executive Director Chairman, Audit and Risk Committee Nigel was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Nigel was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles. Nigel has extensive experience in risk management, technology, consulting and auditing in Australia and the Asia-Pacific region. Nigel's current Directorships include a non-executive Director with Credit Union Australia, where he is Chair of CCI Ltd and a member of the Strategy Committee, non-executive director of Quickstep Holdings Ltd where he is Chair of the Audit and Risk Committee and non-executive Director of the Australia Red Cross Blood Service, where he is a member of the Finance and Audit Committee and a member of the Risk Committee. Nigel has also been a member of the Grameen Foundation Australia charity board since 2012. Former listed directorships in the last three years: None Interest in stapled securities: 109,630 Qualifications: B.Com, FCA, MAICD
William (Bill) Moss AO	Non-Executive Director Bill was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Bill is an Australian businessman and philanthropist with expertise in real estate, banking, funds and asset management. Bill spent 23 years as a senior executive and Executive Director with Macquarie Group, the pre-eminent Australian investment bank, where Bill managed the Global Banking and Real Estate businesses. Bill founded, grew and led Macquarie Real Estate Group to a point where it managed over $23 billion worth of investments around the world. Bill is Chairman of Moss Capital and Chairman and Founder of The FSHD Global Research Foundation. Bill is a commentator on the Australian finance and banking sectors, the global economy and the ongoing need for Australia to do more to advance the interests of the country's disabled and disadvantaged. In 2015, Bill was awarded one of Australia's highest honours, Office of the Order of Australia (AO), for services to the banking, charity, and finance sectors. Former listed directorships in the last three years: None Interest in stapled securities: 903,704 Qualifications: B.Ec

DIRECTORS' REPORT

continued

8. Directors' relevant interests

	Securities at the date of this report
Paul Bedbrook	–
Glenn Willis	224,075
Nigel Ampherlaw	109,630
William (Bill) Moss	903,704

Other than as disclosed in the Annual Financial Report, no contracts exist where a director is entitled to a benefit.

9. Meetings of Directors

The attendance at meetings of Directors of the Responsible Entity and the Audit and Risk Committee of the Group during the year is set out in the following table:

Name	Elanor Board (Responsible Entity)		Audit and Risk Committee	
	Held	Attended	Held	Attended
Paul Bedbrook	9	9	1	1
Glenn Willis	9	9	1	1
Nigel Ampherlaw	9	9	1	1
William (Bill) Moss	9	9	N/A	N/A

10. Company Secretary

Symon Simmons held the position of Company Secretary of the Responsible Entity during the period. Symon is the Chief Financial Officer of the Group, and has extensive experience as a company secretary, is a Justice of the Peace in NSW and is a Responsible Manager on the Australian Financial Services Licence held by the Responsible Entity.

11. Indemnification and insurance of officers and auditors

During the financial year, the Responsible Entity paid a premium in respect of a contract insuring the Directors of the Responsible Entity (as named above), the company secretary, and all executive officers of the Responsible Entity and of any related body corporate against a liability incurred in their capacity as Directors and officers of the Responsible Entity to the extent permitted by the Corporations Act 2001 (Cth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Responsible Entity or of any related body corporate against a liability incurred in their capacity as an officer.

The auditor of the Fund is not indemnified out of the assets of the Fund.

12. Environmental regulation

To the best of their knowledge and belief after making due enquiry, the Directors have determined that the Fund has complied with all significant environmental regulations applicable to its operations in the jurisdictions in which it operates.

13. Significant changes in state of affairs

There was no significant change in the state of affairs of the Fund during the year.

DIRECTORS' REPORT

continued

14. Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the Corporations Act 2001 (Cth), is included on the page following the Directors' Report.

15. Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 17 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth).

The Directors are of the opinion that the services as disclosed in Note 17 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Fund, acting as advocate for the Fund or jointly sharing economic risks and rewards.

16. Likely developments and expected results of operations

The financial statements have been prepared on the basis of the current known market conditions. The extent of any potential deterioration in either the capital or physical property markets on the future results of the Fund is unknown. Such results could include property market valuations, the ability of the Fund to raise or refinance debt, and the cost of such debt and the ability to raise equity.

At the date of this report and to the best of the Directors' knowledge and belief, there are no other anticipated changes in the operations of the Fund which would have a material impact on the future results of the Fund.

17. Events occurring after reporting date

Subsequent to year end, a distribution of 5.0 cents per stapled security has been declared by the Board of Directors.

As noted previously, on 31 July 2017, the Group completed the acquisition of the Gladstone Square shopping centre at a purchase price of $31.5 million.

Other than the above, the Directors of the Responsible Entity are not aware of any other matter since the end of the period that has or may significantly affect the operations of the Group, the result of those operations, or the state of the Group's affairs in future financial periods that are not otherwise referred to in this Directors' Report.

18. Rounding of amounts to the nearest thousand dollars

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission, amounts in the financial statements have been rounded to the nearest thousand dollar, unless otherwise indicated.

DIRECTORS' REPORT

continued

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

Signed in accordance with a resolution of the Directors pursuant to section 298(2) of the Corporations Act 2001 (Cth).

Paul Bedbrook
Chairman

Glenn Willis
CEO and Managing Director

Sydney, 18 August 2017

AUDITORS INDEPENDENCE DECLARATION

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The Directors
Elanor Funds Management Limited
(as responsible entity for Elanor Retail Property
Fund I and Elanor Retail Property Fund II)
Level 38, 259 George Street
Sydney NSW 2000

18 August 2017

Dear Directors,

Elanor Retail Property Fund I and Elanor Retail Property Fund II

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Elanor Funds Management Limited in its capacity as responsible entity for Elanor Retail Property Fund I and Elanor Retail Property Fund II.

As lead audit partner for the audit of the financial statements of Elanor Retail Property Fund I and Elanor Retail Property Fund II for the year 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 faithfully,

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

AG Collinson
Partner
Chartered Accountants

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

for the year ended 30 June 2017

	Note	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Income					
Rental income	2	20,062	9,065	13,715	5,509
Interest income		32	36	21	2
Net gain on change in fair value of investment properties	6	–	11,389	–	6,191
Net fair value increment and transaction costs	11	4,728	–	–	81
Total income		**24,822**	**20,490**	**13,736**	**11,784**
Expenses					
Rates, taxes and other outgoings		5,724	2,512	3,736	1,018
Borrowing costs		3,129	1,962	3,312	1,167
Investment management fees	14	3,626	832	901	1,783
Other expenses		611	252	541	1,049
Net fair value decrement and transaction costs	11	–	–	891	–
Total expenses		**13,090**	**5,558**	**9,381**	**5,017**
Net profit / (loss) for the year		**11,732**	**14,931**	**4,357**	**6,767**
Attributable to security holders of:					
- Elanor Retail Property Fund II		7,777	14,931	–	–
- Elanor Retail Property Fund I (Non-controlling interest)		3,955	–	4,357	6,767
Net profit / (loss) for the year		**11,732**	**14,931**	**4,357**	**6,767**
Basic earnings per stapled security (cents)		12.42	45.04	4.78	31.05
Diluted earnings per stapled security (cents)		12.34	45.04	4.75	31.05

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Net profit / (loss) for the year	**11,732**	**14,931**	**4,357**	**6,767**
Other comprehensive income				
Items that may be reclassified to profit and loss				
Gain / (loss) on revaluation of cash flow hedge	568	(818)	511	(1,152)
Other comprehensive income / (loss) for the year	568	(818)	511	(1,152)
Total comprehensive income / (loss) for the year	**12,300**	**14,113**	**4,868**	**5,616**
Attributable to security holders of:				
- Elanor Retail Property Fund II	7,834	14,113	–	–
- Elanor Retail Property Fund I (Non-controlling interest)	4,466	–	4,868	5,616
Total comprehensive income / (loss) for the year	**12,300**	**14,113**	**4,868**	**5,616**

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 30 June 2017

	Note	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Current assets					
Cash and cash equivalents		4,448	774	2,808	520
Receivables		659	452	308	288
Other current assets		1,805	57	1,748	–
Prepayments		243	72	36	95
Total current assets		**7,155**	**1,355**	**4,900**	**903**
Non-current assets					
Investment properties	6	260,750	85,190	165,750	63,116
Total non-current assets		**260,750**	**85,190**	**165,750**	**63,116**
Total assets		**267,905**	**86,545**	**170,650**	**64,019**
Current liabilities					
Payables	12	2,445	840	2,027	497
Rent received in advance		385	92	257	21
Derivative financial instruments	8	245	–	459	338
Distribution payable		–	725	–	576
Total current liabilities		**3,075**	**1,656**	**2,743**	**1,432**
Non-current liabilities					
Interest bearing liabilities	7	81,740	40,357	40,825	33,756
Interest bearing cross-staple loan	7	–	–	51,706	–
Derivative financial instruments	8	235	818	181	813
Total non-current liabilities		**81,975**	**41,175**	**92,712**	**34,570**
Total liabilities		**85,050**	**42,831**	**95,455**	**36,002**
Net assets		**182,855**	**43,714**	**75,195**	**28,017**
Equity					
Equity Holders of Parent Entity					
Contributed equity	9	90,421	32,819	66,116	22,000
Reserves		(499)	(818)	(632)	(1,152)
Retained profits / (accumulated losses)		17,738	11,713	9,711	7,169
Parent entity interest		**107,660**	**43,714**	**75,195**	**28,017**
Equity Holders of Non-Controlling Interest					
Contributed equity	9	66,116	–	–	–
Reserves		(735)	–	–	–
Retained profits / (accumulated losses)		9,814	–	–	–
Non-controlling interest		**75,195**	**–**	**–**	**–**
Total equity attributable to stapled security holders:					
- Elanor Retail Property Fund II		107,660	43,714	–	–
- Elanor Retail Property Fund I		75,195	–	75,195	28,017
Total equity		**182,855**	**43,714**	**75,195**	**28,017**

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2017

	Note	Contributed Equity $'000	Cash flow Hedge Reserve $'000	Security Based Payment Reserve $'000	Retained Profits/ (Accumulated Losses) $'000	Parent Entity Total Equity $'000	Non-Controlling Interests $'000	Total Equity $'000
Consolidated Group								
Total equity at 1 July 2016		32,818	(818)	–	11,713	43,714	–	43,714
Profit / (loss) for the period		–	–	–	7,777	7,777	3,955	11,732
Other comprehensive income / (expense) for the period		–	160	–	–	160	408	568
Total comprehensive income / (expense) for the period		**–**	**160**	**–**	**7,777**	**7,937**	**4,363**	**12,300**
Transactions with owners in their capacity as owners:								
Acquisition from business combination	11	–	–	–	–	–	25,998	25,998
Redemptions	9	(3,738)	–	–	–	(3,738)	–	(3,738)
Contributions of equity, net of issue costs	9	61,340	–	–	–	61,340	45,829	107,169
Security-based payments		–	–	10	–	10	8	18
Reversal of cash flow hedge reserve to income statement		–	149	–	–	149	–	149
Distributions paid and payable		–	–	–	(1,752)	(1,752)	(1,003)	(2,755)
Total equity at 30 June 2017		**90,421**	**(509)**	**10**	**17,738**	**107,660**	**75,195**	**182,855**
Consolidated Group								
Total equity at 22 May 2015		–	–	–	–	–	–	–
Profit / (loss) for the period		–	–	–	14,931	14,931	–	14,931
Other comprehensive income / (expense) for the period		–	(818)	–	–	(818)	–	(818)
Total comprehensive income / (expense) for the period		**–**	**(818)**	**–**	**14,931**	**14,113**	**–**	**14,113**
Transactions with owners in their capacity as owners:						–		–
Contributions of equity, net of issue costs	9	32,818	–	–	–	32,818	–	32,818
Distributions paid and payable		–	–	–	(3,218)	(3,218)	–	(3,218)
Total equity at 30 June 2016		**32,818**	**(818)**	**–**	**11,713**	**43,714**	**–**	**43,714**

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

continued

	Note	Contributed Equity $'000	Cash flow Hedge Reserve $'000	Security Based Payment Reserve $'000	Retained Profits/ (Accumulated Losses) $'000	Total Equity $'000
ERPF I Group						
Total equity at 1 July 2016		22,000	(1,152)	–	7,169	28,017
Profit / (loss) for the period		–	–	–	4,357	4,357
Other comprehensive income / (expense) for the period		–	511	–	–	511
Total comprehensive income / (expense) for the period		**–**	**511**	**–**	**4,357**	**4,868**
Transactions with owners in their capacity as owners:						
Redemptions	9	(1,713)	–	–	–	(1,713)
Contributions of equity, net of issue costs	9	45,829	–	–	–	45,829
Security-based payments		–	–	8	–	8
Distributions paid and payable		–	–	–	(1,815)	(1,815)
Total equity at 30 June 2017		**66,116**	**(640)**	**8**	**9,711**	**75,195**
ERPF I Group						
Total equity at 1 July 2015		14,921	–	–	2,548	17,469
Profit / (loss) for the period		–	–	–	6,767	6,767
Other comprehensive income / (expense) for the period		–	(1,152)	–	–	(1,152)
Total comprehensive income / (expense) for the period		**–**	**(1,152)**	**–**	**6,767**	**5,616**
Transactions with owners in their capacity as owners:						
Redemptions	9	(5,337)	–	–	–	(5,337)
Contributions of equity, net of issue costs	9	12,416	–	–	–	12,416
Distributions paid and payable		–	–	–	(2,146)	(2,146)
Total equity at 30 June 2016		**22,000**	**(1,152)**	**–**	**7,169**	**28,017**

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 30 June 2017

	Note	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Cash flows from operating activities					
Rental and other property income received		21,102	9,009	14,353	6,089
Payments to suppliers and the Responsible Entity		(10,283)	(3,520)	(4,820)	(4,337)
Interest received		32	36	21	2
Finance costs paid		(2,653)	(1,921)	(3,007)	(1,167)
Net cash flows from operating activities	5	**8,198**	**3,605**	**6,547**	**588**
Cash flows from investing activities					
Payments for additions to investment properties		(97,873)	(73,469)	(95,852)	(20,083)
Payments for transaction costs		(11,275)	–	(9,482)	–
Net cash flows from investing activities		**(109,148)**	**(73,469)**	**(105,334)**	**(20,083)**
Cash flows from financing activities					
Net proceeds from interest bearing liabilities		6,471	40,316	58,772	14,193
Net proceeds from equity raising		107,169	32,815	45,829	7,079
Redemptions paid		(5,450)	–	(1,713)	–
Distributions paid		(3,566)	(2,493)	(1,814)	(2,046)
Net cash flows from financing activities		**104,624**	**70,638**	**101,074**	**19,225**
Net increase / (decrease) in cash and cash equivalents		3,674	774	2,288	(270)
Cash and cash equivalents at the beginning of the year		774	–	520	789
Cash at the end of the year		**4,448**	**774**	**2,808**	**520**

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

About this Report

Elanor Retail Property Fund (the Fund, Group or Consolidated Group) is a 'stapled' entity comprising of Elanor Retail Property Fund I (formerly Elanor Retail Property Fund) (ERPF I) and its controlled entities, and Elanor Retail Property Fund II (formerly Auburn Central Syndicate) (ERPF II) and its controlled entities. The units in ERPF I are stapled to units in ERPF II. The stapled securities cannot be traded or dealt with separately. The stapled securities of the Fund were listed on the Australian Securities Exchange (ASX:ERF) on 9 November 2016 (IPO transaction).

For the purposes of the consolidated financial report, ERPF II has been deemed the parent entity of ERPF I in the stapled structure. The Directors applied judgement in the determination of the parent entity of the Fund and considered various factors including asset size and capital structure. The financial report of the Fund comprises the consolidated financial report of Elanor Retail Property Fund II and its controlled entities, including Elanor Retail Property Fund I and its controlled entities (ERPF I Group). As permitted by Class Order 05/642 issued by the Australian Securities and Investments Commission (ASIC), this report is a combined report that presents the consolidated financial statements and accompanying notes of both the Fund and ERPF I Group. The comparative period disclosed for the Group in the financial report consists of the results of ERPF II when it was operating as Auburn Central Syndicate prior to the IPO, from 22 May 2015 to 30 June 2016, being its first reporting period.

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, the Scheme Constitutions and Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (‘IFRS’).

Basis of consolidation

The consolidated financial report of the Fund incorporates the assets and liabilities of ERPF II (the Parent) and all of its subsidiaries, including ERPF I and its subsidiaries as at 30 June 2017. ERPF II is the parent entity in relation to the stapling. The results and equity of ERPF I (which is not directly owned by ERPF II) have been treated and disclosed as a non-controlling interest. Whilst the results and equity of ERPF I are disclosed as a non-controlling interest, the stapled security holders of ERPF I are the same as the stapled security holders of ERPF II.

This consolidated financial report also includes a separate column representing the financial report of ERPF I, incorporating the assets and liabilities of ERPF I and all of its subsidiaries, as at 30 June 2017.

For the purpose of preparing the financial statements, the Fund is a for-profit entity. The financial report is presented in Australian Dollars.

NOTES TO THE FINANCIAL STATEMENTS

continued

The notes to the consolidated financial statements have been organised into the following four sections:

NOTES TO THE FINANCIAL STATEMENTS

continued

Results

This section focuses on the operating results and financial performance of the Fund. It includes disclosures of revenue, distributions and cash flow including the relevant accounting policies adopted in each area.

1. Segment information

OVERVIEW

The Fund only operates in one business segment, being the investment in retail shopping centres in Australia.

2. Revenue

OVERVIEW

The Fund's main source of revenue is rental income from its investment in retail shopping centres.

(a) Rental income

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Auburn Central	8,548	9,065	–	–
Tweed Heads	6,509	–	6,509	–
Manning Mall	2,775	–	4,271	4,469
Glenorchy Plaza	1,265	–	1,970	1,040
Northway Plaza	965	–	965	–
Total revenue from operating activities	**20,062**	**9,065**	**13,715**	**5,509**

ACCOUNTING POLICY

Rental income

The Fund is the lessor of operating leases. Rental income arising from operating leases is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term of the lease on the same basis as the lease income.

Lease incentives

Lease incentives (including rent free periods, fit out and other payments) are accounted for on a straight-line basis over the lease term and offset against rental income in the statement of profit or loss. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option.

NOTES TO THE FINANCIAL STATEMENTS

continued

3. Distributions

OVERVIEW

In accordance with the Fund's Constitutions, the Responsible Entity determines Core Earnings attributable to the security holders as the net profit for the year, excluding certain non-recurring and non-cash items.

The Fund aims to distribute between 90% and 100% of Core Earnings each year.

(a) Distributions during the year

Consolidated Group

The following distributions were declared by the Consolidated Group either during the year or post balance date:

	Distribution cents per stapled security	Total amount $'000
Distribution for the period ended 30 June 2017 [1]	5.00	6,438
Distribution for the period ended 31 December 2016	1.40	1,797
Total	**6.40**	**8,235**

(1) The distribution of 5.00 cents per stapled security for the half-year ended 30 June 2017 was not declared prior to 30 June 2017. The distribution was declared on 18 August 2017. Please refer to the Director's Report for the calculation of Core Earnings and the Distribution.

ERPF I Group

The following distributions were declared by the ERPF I Group either during the year or post balance date:

	Distribution cents per unit	Total amount $'000
Distribution for the period ended 30 June 2017 [1]	2.72	3,498
Distribution for the period ended 31 December 2016	0.78	1,003
Total	**3.50**	**4,501**

(1) The distribution of 2.72 cents per unit for the half-year ended 30 June 2017 was not declared prior to 30 June 2017. The distribution was declared on 18 August 2017. Please refer to the Director's Report for the calculation of Core Earnings and the Distribution.

ACCOUNTING POLICY

Distributions are recognised when declared. Distributions paid and payable are recognised as distributions within equity. A liability is recognised where distributions have been declared but not been paid. Distributions paid are included in cash flows from financing activities in the statement of cash flows.

4. Earnings / (losses) per stapled security

OVERVIEW

Basic earnings per stapled security is calculated as net profit or loss attributable to security holders divided by the weighted average number of ordinary stapled securities issued.

Diluted earnings per stapled security is calculated as profit or loss attributable to security holders adjusted for any profit or loss recognised in the period in relation to dilutive potential stapled securities divided by the weighted average number of stapled securities and dilutive stapled securities.

NOTES TO THE FINANCIAL STATEMENTS

continued

4. Earnings / (losses) per stapled security (continued)

Earnings used in the calculation of basic and diluted earnings per stapled security reconciles to the net profit or loss in the consolidated statements of comprehensive income as follows:

	Consolidated Group 30 June 2017	Consolidated Group 30 June 2016	ERPF I Group 30 June 2017	ERPF I Group 30 June 2016
The earnings / (losses) per stapled security measure shown below is based upon the profit / (loss) attributable to securityholders:				
Basic earnings per stapled security (cents)	12.42	45.04	4.78	31.05
Diluted earnings per stapled security (cents)	12.34	45.04	4.75	31.05
Profit / (loss) attributable to security holders used in calculating basic and diluted earnings per stapled security ($'000)	11,732	14,931	4,357	6,767
Weighted average number of stapled securities used as denominator in calculating basic earnings per stapled security	94,425,788	33,150,000	91,110,926	21,791,399
Weighted average number of stapled securities used as denominator in calculating diluted earnings per stapled security	95,066,884	33,150,000	91,752,022	21,791,399

5. Cash flow information

OVERVIEW

This note provides further information on the consolidated cash flow statements of the Fund. It reconciles profit for the year to cash flows from operating activities and information about non-cash transactions.

(a) Reconciliation of profit for the year to net cash provided by operating activities

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Profit / (loss) for the period	**11,732**	**14,931**	**4,357**	**6,767**
Net unrealised loss on revaluation of derivatives	–	–	–	(81)
Fair value adjustment on revaluation of investment property	(15,022)	(11,389)	(7,738)	(6,191)
Amortisation	638	41	377	395
Transaction and IPO costs through profit and loss	10,294	–	8,629	–
Straight-lining of rental income and rental guarantee	(964)	(330)	(883)	–
Net cash provided by operating activities before changes in working capital	**6,678**	**3,253**	**4,742**	**891**
Movement in working capital				
Decrease / (increase) in trade and other receivables	(207)	(452)	(20)	5
Increase in other current assets	–	(57)	–	–
Decrease / (increase) in prepayments	(171)	(72)	59	35
Increase / (decrease) in trade and other payables	1,605	840	1,530	(343)
Increase / (decrease) in amounts received in advance	293	92	236	–
Net cash from operating activities	**8,198**	**3,605**	**6,547**	**588**

NOTES TO THE FINANCIAL STATEMENTS

continued

Operating Assets

This section includes information about the assets used by the Fund to generate profits and revenue, specifically information relating to its investment properties.

6. Investment properties

OVERVIEW

Investment properties are held solely for the purpose of earning rental income and / or for capital appreciation. At balance date, the Fund's investment property portfolio comprises 5 retail shopping centres in Australia.

(a) Carrying values of investment properties

	Valuation	Date	Value $'000	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Auburn Central	Independent	June 2017	95,000	95,000	85,190	–	–
Tweed Mall	Independent	June 2017	86,500	86,500	–	86,500	–
Manning Mall	Internal	June 2017	43,000	43,000	–	43,000	43,321
Glenorchy Plaza	Internal	June 2017	19,750	19,750	–	19,750	19,795
Northway Plaza	Independent	June 2017	16,500	16,500	–	16,500	–
Total investment properties			**260,750**	**260,750**	**85,190**	**165,750**	**63,116**

(b) Movement in investment properties

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Opening balance	**85,190**	**–**	**63,116**	**36,841**
Acquisitions and business combinations	156,823	73,801	94,073	19,602
Capital expenditure	3,715	–	823	482
Net fair value adjustments	15,022	11,389	7,738	6,191
Total investment properties	**260,750**	**85,190**	**165,750**	**63,116**

(c) Fair value measurement

Highest and best use

For all investment properties, the current use equates to the highest and best use.

Fair value hierarchy and valuation techniques

The fair value measurement for investment properties has been categorised as Level 3 fair value based on the key inputs to the valuation techniques used below:

6. Investment properties (continued)

(c) Fair value measurement (continued)

Valuation Techniques	Significant unobservable inputs	Range	Relationship with fair value
Discounted cash flows – involves the projection of a series of inflows and outflows to which a market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property.	Adopted discount Rate[1]	7.8% - 8.5%	The higher/lower the rate, the lower/higher the fair value.
	Adopted terminal yield[2]	6.8% - 7.8%	The higher/lower the rate, the lower/higher the fair value.
Capitalisation method – involves determining the net market income of the investment property. This net market income is then capitalised at the adopted capitalisation rate to derive a core value.	Adopted capitalisation rate[3]	6.5% - 7.8%	The higher/lower the rate, the lower/higher the fair value.

[1] Adopted discount rate: The rate of return used to convert cash flows, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regard to market evidence.

[2] Adopted terminal yield: The capitalisation rate used to convert the future net market rental revenue into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regard to market evidence.

[3] Adopted capitalisation rate: The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence.

ACCOUNTING POLICY

Recognition and measurement

Investment properties are measured initially at 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 the statement of profit or loss in the year in which they arise.

Fair value is defined as the price at which an asset or liability could be exchanged in an arm's length transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

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 property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year in which the property is derecognised.

Valuation process

In reaching estimates of fair value, management judgment needs to be exercised. The level of management judgment required in establishing fair value of the investments for which there is no quoted price in an active market is reduced through the use of external valuations.

The aim of the valuation process is to ensure that assets are held at fair value and that the Fund is compliant with applicable Australian Accounting Standards, regulations, and the Fund's Constitutions.

NOTES TO THE FINANCIAL STATEMENTS

continued

6. Investment properties (continued)

(c) Fair value measurement (continued)

All properties are required to be internally valued every six months with the exception of those independently valued during that six month period. The internal valuations are performed by utilising the information from a combination of asset plans and forecasting tools prepared by the asset management team. 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.

The Fund's valuation policy requires that each property in the portfolio is valued by an independent valuer at least every three years. In practice, properties may be valued more frequently than every three years primarily where there may have been a material movement in the market and where there is a significant variation between the carrying value and the internal valuation.

Independent valuations are performed by independent and external valuers who hold a recognised relevant professional qualification and have specialised expertise in the types of investment properties valued.

Finance and Capital Structure

This section provides further information on the Fund's equity and debt structure, and also in relation to financial risk management for its exposure to credit, liquidity and market risks.

7. Interest bearing liabilities

OVERVIEW

The Fund has access to a combined $90 million facility. The drawn amount at 30 June 2017 is $82.6 million, of which the ERPF I Group's drawn amount of $41.5 million will mature on 22 December 2018, and the balance of $41.1 million will mature on 12 May 2020. At 30 June 2017, the interest rate risk of drawn facilities is hedged to 91% (discussed in Note 8).

During the period, as part of the IPO transaction (discussed in Note 11), an amount of $7.7 million was drawn by the ERPF I Group for the acquisition of Northway Plaza.

	Note	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Non-current					
Bank loan - term debt		82,547	40,500	41,525	33,825
Borrowing costs less amortisation		(807)	(143)	(700)	(69)
Cross-staple loan	(1)	–	–	51,706	–
Total interest bearing liabilities		**81,740**	**40,357**	**92,531**	**33,756**

(1) Refer to Note 14 for further discussion on the cross-staple loan.

ACCOUNTING POLICY

Interest bearing liabilities are recognised initially at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing. Subsequent to initial recognition, interest bearing liabilities are recognised at amortised cost using the effective interest method. Under the effective interest method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the statement of profit or loss over the expected life of the borrowings.

Interest bearing liabilities are classified as current liabilities where the liability has been drawn under a financing facility which expires within one year. Amounts drawn under financial facilities which expire after one year are classified as non-current.

8. Derivative financial instruments

OVERVIEW

The Fund's derivative financial instruments consist of interest rate swap contracts to hedge its exposure to movements in variable interest rates. The interest rate swap agreements allow the Fund to raise long term borrowings at a floating rate and effectively swap them into a fixed rate.

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Current liabilities				
Interest rate swaps	245	–	459	338
Non-current liabilities				
Interest rate swaps	235	818	181	813
Total derivative financial instruments	**480**	**818**	**640**	**1,152**

NOTES TO THE FINANCIAL STATEMENTS

continued

8. Derivative financial instruments (continued)

(a) Valuation

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments (level 1); and
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves (level 2).

All of the resulting fair value estimates are included in Level 2. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

ACCOUNTING POLICY

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge Accounting

The Fund designates its hedging instruments, which include derivatives, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Fund documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

Hedge accounting is discontinued when the Fund revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

9. Contributed equity

OVERVIEW

The Fund is a 'stapled' entity comprising of ERPF I and its controlled entities, and ERPF II and its controlled entities. The units in ERPF I are stapled to units in ERPF II. The stapled securities cannot be traded or dealt with separately.

(a) Parent entity

	Note	No. of securities 30 June 2017 '000	No. of securities 30 June 2016 '000	Parent Entity 30 June 2017 $'000	Parent Entity 30 June 2016 $'000
Opening balance		33,150	–	32,819	–
Redemptions		(3,039)	–	(3,738)	–
Capital restructure		17,666	–	–	–
Capital raised (net of capital raise costs)	(1)	80,953	33,150	61,340	32,819
Total contributed equity		**128,730**	**33,150**	**90,421**	**32,819**

(1) Refer to Note 11 for discussion on the IPO transaction.

9. Contributed equity (continued)

(b) ERPF I Group

	Note	No. of securities 30 June 2017 '000	No. of securities 30 June 2016 '000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Opening balance		23,914	18,000	22,000	14,921
Redemptions		(1,404)	(4,375)	(1,713)	(5,337)
Capital restructure		25,267	–	–	–
Capital raised (net of capital raise costs)	(1)	80,953	10,289	45,829	12,416
Total contributed equity		**128,730**	**23,914**	**66,116**	**22,000**

(1) Refer to Note 11 for discussion on the IPO transaction.

10. Financial risk management

OVERVIEW

The Fund's principal financial instruments comprise cash, receivables, interest bearing loans and derivatives.

The Fund's activities are exposed to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk and the Fund's management of capital. Further quantitative disclosures are included through these financial statements.

The Board of Directors (Board) of the Trustee of the Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is responsible for monitoring the identification and management of key risks to the business.

The Board has established Treasury Guidelines outlining principles for overall risk management and policies covering specific areas, such as mitigating foreign exchange, interest rate and liquidity risks.

The Fund's Treasury Guidelines provide a framework for managing the financial risks of the Fund with a key philosophy of risk mitigation. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. The Fund uses derivative financial instruments such as interest rate swaps where possible to hedge certain risk exposures.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, ageing analysis for credit risk and cash flow forecasting for liquidity risk.

There have been no other significant changes in the types of financial risks or the Fund's risk management program (including methods used to measure the risks).

(a) Market risk

Market risk refers to the potential for changes in the value of the Fund's financial instruments or revenue streams from changes in market prices, being interest rate risk.

(b) Interest rate risk

Interest rate risk refers to the potential fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates.

As at reporting date, the Fund had the following undiscounted (including future interest payable) interest bearing assets and liabilities:

NOTES TO THE FINANCIAL STATEMENTS

continued

10. Financial risk management (continued)

(b) Interest rate risk (continued)

Consolidated Group 30 June 2017	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	4,448	–	–	–	4,448
Total assets	**4,448**	**–**	**–**	**–**	**4,448**
Weighted average interest rate					**0.69%**
Liabilities					
Interest bearing loans	7,700	–	80,186	–	87,886
Derivative financial instruments	–	245	275	–	520
Total liabilities	**7,700**	**245**	**80,461**	**–**	**88,406**
Weighted average interest rate					**3.83%**

Consolidated Group 30 June 2016	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	774	–	–	–	774
Total assets	**774**	**–**	**–**	**–**	**774**
Weighted average interest rate					**1.50%**
Liabilities					
Interest bearing loans	–	–	40,357	–	40,357
Derivative financial instruments	–	–	818	–	818
Total liabilities	**–**	**–**	**41,175**	**–**	**41,175**
Weighted average interest rate					**4.24%**

ERPF I Group 30 June 2017	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	2,808	–	–	–	2,808
Total assets	**2,808**	**–**	**–**	**–**	**2,808**
Weighted average interest rate					**0.52%**
Liabilities					
Interest bearing loans	7,700	–	34,350	–	42,050
Interest bearing cross-staple loan	–	–	–	73,526	73,526
Derivative financial instruments	–	459	220	–	679
Total liabilities	**7,700**	**459**	**34,570**	**73,526**	**116,255**
Weighted average interest rate					**4.03%**

NOTES TO THE FINANCIAL STATEMENTS

continued

10. Financial risk management (continued)

(b) Interest rate risk (continued)

ERPF I Group 30 June 2016	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	520	–	–	–	520
Total assets	**520**	**–**	**–**	**–**	**520**
Weighted average interest rate					**1.50%**
Liabilities					
Interest bearing loans	–	–	33,756	–	33,756
Derivative financial instruments	–	338	813	–	1,151
Total liabilities	**–**	**338**	**34,569**	**–**	**34,907**

(c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The Fund manages credit risk on receivables by performing credit reviews of prospective debtors, obtaining collateral where appropriate and performing detailed reviews on any debtor arrears. Credit risk on derivatives is managed through limiting transactions to investment grade counterparties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Cash and other cash equivalents	4,448	774	2,808	520
Trade and other receivables	659	452	308	288
Total	**5,107**	**1,225**	**3,116**	**808**

Where entities have a right of set-off and intend to settle on a net basis under netting arrangements, this set-off has been recognised in the consolidated financial statements on a net basis. Details of the Fund's contingent liabilities are disclosed in Note 15.

At balance date there were no other significant concentrations of credit risk.

No allowance has been recognised for the GST from the taxation authorities. Based on historical experience, there is no evidence of default from these counterparties which would indicate that an allowance was necessary.

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Current	417	189	217	46
Past due 31-60 days	56	130	52	242
Past due 61+ days	186	133	39	–
Total	**659**	**452**	**308**	**288**

NOTES TO THE FINANCIAL STATEMENTS

continued

10. Financial risk management (continued)

(d) Capital risk management

The Fund maintains its capital structure with the objective to safeguard its ability to continue as a going concern, to increase the returns for security holders and to maintain an optimal capital structure. The capital structure of the Fund consists of equity as listed in Note 9.

The Fund assesses its capital management approach as a key part of the Fund's overall strategy and it is continuously reviewed by management and the Directors of the Responsible Entity.

To achieve the optimal capital structure, the Board may use the following strategies: amend the distribution policy of the Fund; issue new units through a private placement; conduct a buyback of units; acquire debt; or dispose of investment properties.

NOTES TO THE FINANCIAL STATEMENTS

continued

Other Items

This section provides information that is not directly related to the specific line items in the financial statements, including information about contingent liabilities, events after the end of the reporting period, remuneration of auditors and changes in accounting policies and disclosures.

11. Business combinations

OVERVIEW

The Fund listed on the Australian Securities Exchange ("ASX") on 9 November 2016. The Fund was formed with the stapling of the units of two existing funds, ERPF I and ERPF II. This transaction represented a business combination by contract alone under the accounting standards, with ERPF II the deemed parent and acquirer of ERPF I (i.e. no cash consideration paid). No goodwill or bargain purchase was recognised as a result of the business combination. Immediately after this business combination, the Fund raised total equity, before capital raise costs, of $109.3 million through its listing on the ASX, and using a combination of new equity and new debt of $7.7m, ERPF I acquired Northway Plaza and Tweed Mall. The classification of transaction costs between general transaction costs, debt establishment costs and equity raise costs was assessed in the determination of the appropriate accounting treatment. The details of the business combination and subsequent asset acquisitions are detailed below.

(a) Balance sheet acquired on business combination

	ERPF I $'000
Investment properties	62,750
Interest bearing liabilities	(34,920)
Other assets	1,005
Other liabilities	(2,837)
Total net assets	**25,998**

(b) New equity raised

	Total $'000	Parent Entity $'000	ERPF I $'000
New equity raised from IPO (net of capital raise costs)	107,169	61,340	45,829

(c) Assets and liabilities acquired

	Northway Plaza $'000	Tweed Mall $'000
Investment properties	14,000	80,074
Other assets	97	2,363
Other liabilities	(185)	(1,557)
Total net assets acquired	**13,912**	**80,880**

(d) Net fair value decrement and transaction costs related to the IPO

	Consolidated Group $'000	ERPF I Group $'000
Stamp duty and registration costs	5,286	5,286
Acquisition costs including advisers and consultants fees	4,396	3,082
Listing related costs	612	261
Total fair value decrement and transaction costs related to the IPO	**10,294**	**8,629**
Other fair value increments on investment property	(15,022)	(7,738)
Total net fair value increment and transaction costs	**(4,728)**	**891**

NOTES TO THE FINANCIAL STATEMENTS

continued

11. Business Combinations (continued)

ACCOUNTING POLICY

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value and comprises the assets transferred, the liabilities incurred and the equity interests issued. Acquisition-related costs are recognised in profit or loss as incurred.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Fund reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

12. Other assets and liabilities

OVERVIEW

This note provides further information about assets and liabilities that are incidental to the Fund’s trading activities, being trade and other payables.

(a) Trade and other payables

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Trade creditors	1,456	–	1,454	144
Related party payables	24	–	22	–
Accrued expenses	643	507	315	345
GST payable	322	333	236	8
Total payables	**2,445**	**840**	**2,027**	**497**

ACCOUNTING POLICY

Payables represent liabilities and accrued expenses owing by the Fund at period end which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition. Payables are recognised at amortised cost and normal commercial terms and conditions apply to payables.

All payables with maturities greater than 12 months after the reporting date are classified as non-current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

continued

13. Net tangible assets

OVERVIEW

This note sets out the net tangible assets of the Fund and the ERPF I Group.

	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Net tangible assets are calculated as follows:				
Total assets	267,905	86,545	170,650	64,019
Less: total liabilities	(85,050)	(42,831)	(95,455)	(36,002)
Net tangible assets	**182,855**	**43,714**	**75,195**	**28,017**
Total number of stapled securities on issue	128,729,689		128,729,689	
Net tangible asset backing per stapled security / unit ($)	1.42		0.58	

14. Related parties

OVERVIEW

Related parties are persons or entities that are related to the Fund as defined by AASB 124 Related Party Disclosures. This note provides information about transactions with related parties during the year.

(a) Key management personnel

Responsible Entity

Elanor Funds Management Limited is the Responsible Entity of the Fund, and is the key management personnel (KMP) of the Fund.

Directors of the Responsible Entity

The Directors of Elanor Funds Management Limited are:

Paul Bedbrook (Chair)
Glenn Willis (Managing Director and Chief Executive Officer)
Nigel Ampherlaw
William (Bill) Moss AO

Other Management Personnel

In addition to the directors, the following persons were Management Personnel of the Responsible Entity with the authority for the strategic direction of the Fund:

Michael Baliva – Fund Manager
Symon Simmons – Chief Financial Officer
Paul Siviour – Chief Operating Officer

Remuneration of Management Personnel

Compensation is paid to the Responsible Entity in the form of fees and is disclosed below. No other amounts are paid by the Fund directly or indirectly to the Management Personnel for services provided to the Fund.

The Directors of the Responsible Entity and other management personnel are paid by the Responsible Entity. Payment made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel.

Consequently, no compensation as defined in AASB 124 Related Party Disclosures is paid by the Fund to its Management Personnel, other than that paid to the Responsible Entity.

Michael Baliva, the Fund Manager, participates in the Fund's executive loan security plan.

NOTES TO THE FINANCIAL STATEMENTS

continued

14. Related parties (continued)

Related party disclosure

During the period, fees were paid by the Fund to Elanor Investors Group and its controlled entities, in accordance with the Constitution of each Scheme, including investment management fees (management and performance fees), acquisition fees, equity raise fees and cost recoveries. The table below details the fees paid prior to the IPO of the Fund on 9 November 2016, and the fees paid subsequent to the IPO, including IPO transaction costs.

Fees paid to Elanor Investors Group and its controlled entities:	Consolidated Group 30 June 2017 $'000	Consolidated Group 30 June 2016 $'000	ERPF I Group 30 June 2017 $'000	ERPF I Group 30 June 2016 $'000
Pre-IPO				
Investment management fees	2,590	832	230	1,783
Post-IPO				
Investment management fees	1,036	–	671	–
Total investment management fees	3,626	832	901	1,783
Other fees including IPO transaction costs	2,289	–	2,141	–
Total	**5,915**	**832**	**3,042**	**1,783**

Related party holdings

Key Management Personnel and other Management Personnel of the Responsible Entity and of its related entities may hold investments in the Fund. Such investments were purchased on normal commercial terms and were at arm's length. The number of securities held by Key Management Personnel and other Management Personnel are as follows:

	Stapled Securities 30 June 2017
Investments held by Elanor Investment Trust	21,883,997
Investments held by Directors and other Management Personnel	1,508,270
Total	23,392,267

Cross-Staple Loan

On 9 November 2016, as part of the internal funding structure on listing of the Fund, ERPF I entered into a 10 year interest-bearing loan with ERPF II at arm's length commercial terms. As at 30 June 2017, the outstanding loan balance payable to ERPF II was $51.7 million.

15. Unrecognised items

OVERVIEW

Items that have not been recognised on the Fund's balance sheet include contractual commitments for future expenditure and contingent liabilities which are not sufficiently certain to qualify for recognition as a liability on the balance sheet. This note provides details of any such items.

(a) Contingent liabilities

The Directors are not aware of any material contingent liabilities of the Fund (2016: nil).

(b) Commitments

The Fund has no capital commitments (2016: nil) in respect of capital expenditures contracted for at the date of the statement of financial position. The ERPF I Group has no capital commitments (2016: nil) in respect of capital expenditures contracted for at the date of the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

continued

16. Parent entity disclosure

OVERVIEW

The financial information below on Elanor Retail Property Fund's parent entity, ERPF II, and ERPF I Group's parent entity, ERPF I, as stand-alone entity has been provided in accordance with the requirements of the Corporations Act 2001.

(a) Summarised financial information

Financial Position	ERPF II 30 June 2017 $'000	ERPF II 30 June 2016 $'000	ERPF I 30 June 2017 $'000	ERPF I 30 June 2016 $'000
Current assets	2,384	1,355	3,451	192
Non - current assets	146,706	85,190	156,476	63,161
Total Assets	**149,090**	**86,545**	**159,927**	**63,353**
Current liabilities	675	1,656	8,692	701
Non - current liabilities	40,755	41,175	85,872	34,908
Total Liabilities	**41,430**	**42,831**	**94,564**	**35,609**
Contributed equity	90,421	32,819	75,348	29,175
Reserves	(499)	(818)	(2,683)	(1,554)
Retained profits / (accumulated losses)	17,738	11,713	(7,302)	122
Total Equity	**107,660**	**43,714**	**65,363**	**27,744**
Financial performance				
Profit / (loss) for the period	7,777	14,931	(5,170)	5,821
Other comprehensive income for the year	160	(818)	511	(1,152)
Total comprehensive income for the year	**7,937**	**14,113**	**(4,659)**	**4,670**

As at 30 June 2017, ERPF I is in a net current asset deficiency of $5.2 million, as a result of the accounting treatment of intercompany balances with its subsidiaries. The Directors believe that ERPF I will be able to pay its debts as and when they become due.

(b) Commitments

At the balance date ERPF I and ERPF II had no commitments (2016: none) in relation to capital expenditure contracted for but not recognised as liabilities.

(c) Guarantees provided

At balance date ERPF I and ERPF II had no outstanding guarantees (2016: none).

(d) Contingent liabilities

At balance date ERPF I and ERPF II has no contingent liabilities (2016: none).

ACCOUNTING POLICY

The financial information of the parent entities of Elanor Retail Property Fund and ERPF I Group have been prepared on the same basis as the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

continued

17. Auditors' remuneration

OVERVIEW

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	Consolidated Group 30 June 2017 $	Consolidated Group 30 June 2016 $	ERPF I Group 30 June 2017 $	ERPF I Group 30 June 2016 $
Deloitte Touche Tohmatsu Australia				
Audit and other assurance services				
Audit and review of financial statements	85,000	–	68,000	25,000
Other services				
Transaction services	135,000	–	87,750	–
Taxation services	118,000	–	79,400	–
Total remuneration of Deloitte Touche Tohmatsu	**338,000**	**–**	**235,150**	**25,000**
YCG Audit Servies Pty Ltd				
Audit and other assurance services				
Audit and review of financial statements	–	17,500	–	–
Total remuneration of YCG Audit Services Pty Ltd	**–**	**17,500**	**–**	**–**
Total auditor's remuneration	**338,000**	**17,500**	**235,150**	**25,000**

18. Subsequent events

Subsequent to year end, a distribution of 5.0 cents per stapled security has been declared by the Board of Directors.

As noted previously, on 31 July 2017, the Group completed the acquisition of the Gladstone Square shopping centre at a purchase price of $31.5 million.

Other than the above, since the end of the period, the Directors are not aware of any other matter or circumstance not otherwise dealt with in the financial reports or the Directors' Report that has significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in financial periods subsequent to the year ended 30 June 2017.

19. Accounting policies

OVERVIEW

This note provides an overview of the Fund's accounting policies that relate to the preparation of the financial report as a whole and do not relate to specific items. Accounting policies for specific items in the balance sheet or statement of comprehensive income have been included in the respective note.

(a) Interest Income

Interest income is recognised as it accrues using the effective interest rate method.

(b) Expenses

All expenses, including responsible entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

(c) Income Taxation

Under current legislation, the Fund is not subject to income tax as security holders are presently entitled to the income of the Fund.

NOTES TO THE FINANCIAL STATEMENTS

continued

19. Accounting policies (continued)

(d) New accounting standards and interpretations

New standards and interpretations not yet adopted

Certain new Accounting Standards and Interpretations have been published that are not mandatory for the financial year ended 30 June 2017 but are available for early adoption. They have not been applied in preparing this financial report. The Responsible Entity's assessment of the impact of these new standards and interpretations is set out below.

Reference	Description	Impact on the Fund's financial statements
AASB 15 *Revenue from Contracts with Customers and Consequential amendments*	AASB 15 provides a new five step model for recognising revenue earned from a contract with a customer and will replace the existing AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The standard becomes mandatory for the June 2019 financial year and will be applied retrospectively.	Based on preliminary analysis performed, the impact of adoption is not expected to be material.
AASB 16 *Leases*	AASB 16 provides a new model for accounting for leases. The standard becomes mandatory for the June 2020 financial year and will be applied retrospectively.	Based on preliminary analysis performed, the impact of adoption is not expected to be material.

Several other amendments to standards and interpretations will apply on or after 1 July 2017, and have not yet been applied, however they are not expected to impact the Fund's consolidated financial statements.

DIRECTORS' DECLARATION

to Stapled Security Holders

In the opinion of the Directors of Elanor Funds Management Limited as responsible entity for Elanor Retail Property Fund I and Elanor Retail Property Fund II:

(a) the financial statements and notes set out on pages 18 to 44 are in accordance with the Corporations Act 2001 (Cth), including:

  i. complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

  ii. giving a true and fair view of the Consolidated Group's and ERPF I Group's financial position as at 30 June 2017 and of their performance, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Consolidated Group and the ERPF I Group will be able to pay their debts as and when they become due and payable; and

(c) the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

(d) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001* (Cth).

This declaration is made in accordance with a resolution of the Board of Directors in accordance with Section 295(5) of the *Corporations Act 2001* (Cth).

Glenn Willis
CEO and Managing Director

Sydney, 18 August 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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Independent Auditor's Report to the Stapled Security Holders of Elanor Retail Property Fund and the Unitholders of ERPF I Group

Opinion

We have audited the accompanying financial report of:

- Elanor Retail Property Fund II ("ERPF II") and its controlled entities ("Elanor Retail Property Fund") which comprises the consolidated balance sheet as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration; and

- Elanor Retail Property Fund I ("ERPF I") and its controlled entities ("ERPF I Group") which comprises the consolidated balance sheet as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of Elanor Retail Property Fund and ERPF I Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of Elanor Retail Property Fund and ERPF I Group's financial positions as at 30 June 2017 and of their financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of Elanor Retail Property Fund and ERPF I Group, 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 Elanor 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.

INDEPENDENT AUDITOR'S REPORT

continued

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td colspan="2">Investment property valuation</td></tr>
<tr><td>
At 30 June 2017, Elanor Retail Property Fund recognised investment properties valued at $260.8m as disclosed in Note 6.
The fair value of investment property is calculated in accordance with the valuation policy set out in Note 6 which outline two valuation methodologies used by Elanor Retail Property Fund.
The capitalisation of net income method applies a capitalisation rate to normalised market net operating income. The discounted cash flow method uses a 10 year cash flow forecast and terminal value calculation discounted to present value.
The valuation process requires significant judgment in the following key areas:
forecast cash flows,
capitalisation rates, and
discount rates.
In addition, internal and external valuers apply professional judgement concerning market conditions and factors impacting individual properties.
The internal and external valuations are reviewed by management who recommends each property's valuation to the Audit and Risk Committee and the Board of the Responsible Entity in accordance with Elanor Retail Property Fund's valuation protocol.
</td><td>
Our procedures included, but were not limited to:

Assessing management's process over the property valuations and the oversight applied by the directors;
Assessing the competence and objectivity of the external valuers and competence of internal valuers;
Performing an analytical review and risk assessment of the portfolio, analysing the key inputs and assumptions;
Assessing the assumptions used in the portfolio, with particular focus on the capitalisation rate and discount rate with reference to external market trends and transactions and challenging those assumptions where appropriate;
Holding discussions with management (and the external valuers as needed) to obtain an understanding of portfolio movements and their identification of any additional property specific matters; and
Testing on a sample basis of properties, both externally and internally valued, the following:

The integrity of the information in the valuation by agreeing key inputs such as net operating income to underlying records and source evidence;
The forecasts used in the valuations with reference to current financial results such as revenues and expenses, capital expenditure requirements, vacancy rates and lease renewals; and
The mathematical accuracy of the models.

We also assessed the appropriateness of the related disclosures included in Note 6 to the financial statements.
</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

continued

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

Initial Public Offering ("IPO") related areas and Business Combination considerations
 	
Elanor Retail Property Fund completed its listing on the Australian Securities Exchange ("ASX") and commenced trading on the ASX on 9 November 2016.
 	
As described in Note 11, Management has considered several accounting and disclosure implications of the IPO, including:
• The stapling of the two funds which was accounted for as a Business Combination in accordance with AASB 3 '*Business Combinations*';
• The acquisition of Tweed Mall and Northway Plaza in accordance with AASB 140 '*Investment Property*'; and
• The treatment of IPO costs.
 	
The IPO related areas and Business Combination considerations are a key audit matter as a result of the complexity of the steps involved in affecting these transactions, and the judgement exercised in determining the accounting treatment to apply to them.
	Our procedures included, but were not limited to:
	• Assessing the accounting treatment relating to the stapling of ERPF I and ERPF II, under AASB 3 '*Business Combinations'*, including:
	  ○ Challenging Management's accounting considerations to determine ERPF II as the parent of Elanor Retail Property Fund; and
	  ○ Performing an assessment of the fair value of ERPF I assets and liabilities acquired at the date of stapling;
	• Assessing the accounting treatment of Tweed Mall and Northway Plaza, including the testing of assets and liabilities acquired and related acquisition costs; and
	• Assessing the accounting treatment of costs relating to the IPO and testing the classification between transaction costs and equity raise costs in accordance with AASB 132 '*Financial Instruments*'; *Presentation*'.

Other Information

The directors of the Responsible Entity (the "Directors") are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report. The other information also includes the following documents which will be included in the Annual Report (but does not include the financial report and our auditor's report thereon): the Message from the Chairman, Message from the CEO and other documents which are expected to be made available to us after that date.

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 on the other information that we 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.

When we read the Message from the Chairman, Message from the CEO and other documents in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Directors' Responsibilities 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.

INDEPENDENT AUDITOR'S REPORT

continued

In preparing the financial report, the directors are responsible for assessing Elanor Retail Property Fund and ERPF I Group's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate Elanor Retail Property Fund and/or ERPF I Group or to cease operations, or have 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 Elanor Retail Property Fund's and ERPF I Group'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 Elanor Retail Property Fund's and ERPF I Group's ability to continue as going concerns. 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 Elanor Retail Property Fund and ERPF I Group to cease to continue as going concerns.

- 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.

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

continued

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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DELOITTE TOUCHE TOHMATSU

AG Collinson
Partner
Chartered Accountants
Sydney, 18 August 2017

CORPORATE GOVERNANCE

The Board of Directors of Elanor Funds Management Limited as responsible entity of the Elanor Retail Property Fund I and Elanor Retail Property Fund II (Fund) have approved the Fund's Corporate Governance Statement as at 30 June 2017. In accordance with ASX Listing Rule 4.10.3, the Fund's Corporate Governance Statement can be found on its website at: www.elanorinvestors.com/ERF

The Board of Directors is responsible for the overall corporate governance of the Fund, including establishing and monitoring key strategy and performance goals. The Board monitors the operational and financial position and performance of the Fund, and oversees its business strategy, including approving the Fund's strategic goals.

The Board seeks to ensure that the Fund is properly managed to protect and enhance security holder interests, and that the Fund, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing the Fund, including Board and Committee Charters and various corporate governance policies designed to promote the responsible management and conduct of the Fund.

SECURITY HOLDER ANALYSIS

(as at 24 August 2017)

STAPLED SECURITIES

The units of the Trusts are combined and issued as stapled securities in the Fund. The Fund's securities are traded on the Australian Securities Exchange (ASX: ERF), having listed on 9 November 2016. The units of the Trusts cannot be traded separately and can only be traded as stapled securities. In accordance with the ASX's requirements for stapled securities, the ASX reserves the right (but without limiting its absolute discretion) to remove a Trust from the ASX Official List if any of the units cease to be stapled together or any equity securities issued by the Trusts which are not stapled to equivalent securities in the other entity..

TOP 20 SECURITY HOLDERS

Number	Security holder	No. of Securities	%
1	Elanor Investment Nominees Pty Limited <Elanor Investment A/C>	21,883,997	17.00
2	Pershing Australia Nominees Pty Ltd <Nominee A/C>	17,140,000	13.31
3	HSBC Custody Nominees (Australia) Limited - A/C 2	12,040,400	9.35
4	Citicorp Nominees Pty Limited	7,006,800	5.44
5	HSBC Custody Nominees (Australia) Limited	5,668,990	4.40
6	Kenxue Pty Ltd <Susan Investment A/C>	4,848,518	3.77
7	The Trust Company (Australia) Limited <Moelis Aus Prop Visa Fd A/C>	4,457,507	3.46
8	J P Morgan Nominees Australia Limited	2,392,411	1.86
9	Armada Investments Pty Ltd	1,822,222	1.42
10	B & J Investment Nominees Pty Ltd	1,652,148	1.28
11	Berg Family Foundation Pty Ltd <Berg Family Foundation A/C>	1,366,667	1.06
12	Pinwillow Pty Ltd <Arb Personal Super Fund A/C>	1,366,667	1.06
13	Kindol Pty Ltd <The Veale Superannuation A/C>	1,308,960	1.02
14	BNP Paribas Noms Pty Ltd <Drp>	1,053,231	0.82
15	Yarramalong Management Services Pty Limited <Yarramalong Mge P/L S/F A/C>	940,119	0.73
16	Oksar Pty Ltd <Raskos A/C>	827,779	0.64
17	Basapa Pty Ltd <Kehoe Family A/C>	825,927	0.64
18	Fasopo Pty Ltd <Romitar Family A/C>	822,223	0.64
19	Carwoola Pty Ltd <Drinnan Directors S/F 2 A/C>	755,408	0.59
20	Bejjal Pty Ltd <Bejjal Super Fund A/C>	740,742	0.58
Total		**88,843,209**	**69.02**
Balance of Register		**39,886,546**	**30.98**
Grand Total		**128,729,755**	**100.00**

SECURITY HOLDER ANALYSIS

(as at 24 August 2017) continued

RANGE REPORT

Range	No. of Securities	%	No. of Holders	%
100,001 and over	116,058,171	90.16	132	24.81
10,001 to 100,000	12,217,328	9.49	312	58.65
5,001 to 10,000	370,546	0.29	47	8.83
1,001 to 5,000	81,367	0.06	29	5.45
1 to 1,000	2,343	0.00	12	2.26
Total	**128,729,755**	**100.00**	**532**	**100.00**

The total number of security holders with an unmarketable parcel of securities was 8.

SUBSTANTIAL SECURITY HOLDERS

Security Holder	No. of Securities	%
Elanor Investment Nominees Pty Limited ATF Elanor Investment Trust	21,883,997	17.00
Moelis Australia Asset Management Limited	21,698,470	16.86
HSBC Custody Nominees (Australia) Limited	11,092,589	8.62

VOTING RIGHTS

On a poll, each security holder has, in relation to resolutions of the Trusts, one vote for each dollar value of their total units held in the Trust.

ON-MARKET BUY-BACK

There is no current on-market buy-back program in place.

CORPORATE DIRECTORY

ELANOR RETAIL PROPERTY FUND (ASX CODE: ERF)

Elanor Funds Management Limited (ACN 125 903 031) is the Responsible Entity of Elanor Retail Property Fund I (ARSN 615 054 129) (ERPF I) and Elanor Retail Property Fund II (ARSN 615 054 174) (ERPF II) each a Trust and together the Elanor Retail Property Fund

Level 38,
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DIRECTORS OF THE RESPONSIBLE ENTITY

Paul Bedbrook (Chair)
Glenn Willis (Managing Director and CEO)
Nigel Ampherlaw
William (Bill) Moss AO

COMPANY SECRETARY OF THE RESPONSIBLE ENTITY

Symon Simmons

SECURITY REGISTRY

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000

AUDITORS

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

CUSTODIAN

The Trust Company (Australia) Limited
Level 18,
123 Pitt Street
Sydney NSW 2000

WEBSITE

www.elanorinvestors.com/ERF

Elanor RETAIL PROPERTY FUND

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