

FORT STREET REAL ESTATE CAPITAL

(ARSN Fund I: 163 688 346 Fund II: 169 190 498 Fund III: 605 335 957)



FSREC PROPERTY FUND ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2024



RESPONSIBLE ENTITY

EQUITY TRUSTEES LIMITED
(ABN 46 004 031 298) (AFSL 240975)

FSREC Property Fund

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30 June 2024

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This annual report covers FSREC Property Fund (**the Fund**) as a stapled group comprising of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III (**the Schemes**).

The Responsible Entity of the Schemes is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street
Melbourne, VIC 3000

FSREC Property Fund
Funds from operations
30 June 2024

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards (**IFRS**) financial measure. FFO is a market accepted measure of a real estate investment fund's operating performance. The Property Council of Australia provides best practice guidelines for the calculation of FFO, which have been followed by FSREC Property Fund.

FFO is determined by adjusting statutory net profit or loss after tax for certain non-cash items such as depreciation, impairment and amortisation. Other one-off items may also be adjusted to provide a clearer indication of the Fund's FFO.

	30 June 2024	30 June 2023
	\$'000	\$'000
Profit for the year	21,670	7,910
Adjustments:		
Fair value movement of investment properties	(3,457)	10,841
Fair value movement of derivative financial instruments	27	-
Straight-lining of rental revenue and incentive amortisation	3,110	2,778
Other items and amortisation of capitalised lease costs	1,383	1,402
FFO	22,733	22,931
Distributions for the year	18,268	18,268
	Cents per stapled security	Cents per stapled security
FFO	9.21	9.29
Distributions	7.40	7.40

Distributions for the year represented a payout ratio of 80% of FFO (30 June 2023: 80%).

FSREC Property Fund
Directors' report
30 June 2024

Introduction

The directors of Equity Trustees Limited, as Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III, which collectively form a stapled group known as FSREC Property Fund (the **Fund**), present their report together with the financial statements of the Fund for the year ended 30 June 2024.

The annual report of FSREC Property Fund comprises Fort Street Real Estate Capital Fund I and its controlled entities. The controlled entities of Fort Street Real Estate Capital Fund I include subsidiaries by way of ownership interests (collectively, **FSREC Fund I**) and other members of the stapled group, being Fort Street Real Estate Capital Fund II and its controlled entities (collectively, **FSREC Fund II**) and Fort Street Real Estate Capital Fund III and its controlled entities (collectively, **FSREC Fund III**).

Principal activities

Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III are unlisted managed investment schemes stapled together and registered in Australia.

The Fund invests in Australian commercial properties for the purposes of deriving rental income and capital growth.

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

There were no significant changes in the nature of the Fund's activities during the financial year.

The various service providers for the Fund are detailed below.

Service

Responsible Entity
Investment Manager & Property Manager
Fund Administrator
Custodian
Statutory Auditor
Unit Registry

Provider

Equity Trustees Limited
Fort Street Real Estate Capital Pty Ltd
Fort Street Real Estate Capital Pty Ltd
The Trust Company (Australia) Limited
Deloitte Touche Tohmatsu
Boardroom Pty Limited

Directors

The following persons held office as directors of Equity Trustees Limited during or since the end of the financial year and up to the date of this report:

Philip D Gentry
Michael J O'Brien
Russell W Beasley
Mary A O'Connor
David B Warren
Andrew P Godfrey

Chairman (resigned 6 June 2024)
Chairman (appointed 6 June 2024)

(appointed 1 May 2024)

FSREC Property Fund
Directors' report
30 June 2024

Review and results of operations

a) Performance returns

	Year ended	
	30 June 2024	30 June 2023
	%	%
Performance		
Growth return (a)	-	(2.17)
Distribution return (b)	4.11	4.02
Total return (c)	<u>4.11</u>	<u>1.85</u>

- (a) The Growth return is calculated as a percentage by dividing the end of period net asset value per stapled security by the net asset value per unit in at the start of the period minus 1.
- (b) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.
- (c) The Total return is calculated as a percentage by dividing the end of period net asset value per stapled security (cum-distribution) by the net asset value per unit at the start of the period minus 1.

b) Financial results

	Year ended	
	30 June 2024	30 June 2023
Profit for the financial year (\$'000)	21,670	7,910
Distributions paid and payable (\$'000)	18,268	18,268
Distributions (cents per stapled security)	7.40	7.40

Distributions

Distributions declared by the Fund during the financial year were as follows:

	Year ended
	30 June 2024
	\$'000
1.85 cents per stapled security for the quarter ended 30 September 2023 paid on 7 November 2023	4,567
1.85 cents per stapled security for the quarter ended 31 December 2023 paid on 2 February 2024	4,567
1.85 cents per stapled security for the quarter ended 31 March 2024 paid on 6 May 2024	4,567
1.85 cents per stapled security for the quarter ended 30 June 2024 paid on 5 August 2024	<u>4,567</u>
	<u>18,268</u>

Significant changes in the state of affairs

Andrew P Godfrey was appointed as a director of Equity Trustees Limited on 1 May 2024.

Philip D Gentry resigned as a director of Equity Trustees Limited on 6 June 2024.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2024 that has significantly affected, or may have a significant effect on:

- the operations of the Fund in future financial years; or
- the results of those operations in future financial years; or
- the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the Product Disclosure Statement and the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regard to insurance cover provided to the officers of Equity Trustees Limited. So long as the officers of Equity Trustees Limited act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Indemnification of auditor

The auditor of the Fund is in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity and its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the financial year are disclosed in Note 22 to the consolidated financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the financial year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 22 to the consolidated financial statements.

Interests in the Fund

The movement in stapled securities on issue in the Fund during the financial year is disclosed in Note 14 to the consolidated financial statements.

The value of the Fund's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in Note 2 to the consolidated financial statements.

Environmental regulation

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

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

Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

Financial statements presentation

The financial report of FSREC Property Fund is presented in accordance with an ASIC Order 21-0740 issued on 14 September 2021 (**Relief Instrument**). The Relief Instrument allows the Fund to present the consolidated financial statements of the relevant entity, FSREC Fund I and its controlled entities, in one section and all other reporting group members (**FSREC Fund II** and **FSREC Fund III**) in a separate section in adjacent columns.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this Directors' Report.

FSREC Property Fund
Directors' report
30 June 2024

This report is made in accordance with a resolution of the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.

On behalf of the directors



Andrew P Godfrey
Director

Melbourne
11 September 2024

The Board of Directors
Equity Trustees Limited as Responsible Entity for:
Fort Street Real Estate Capital Fund I
Fort Street Real Estate Capital Fund II and
Fort Street Real Estate Capital Fund III
Level 4, 7 Macquarie Place,
Sydney NSW 2000

11 September 2024

Dear Board Members

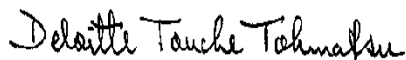
Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III.

As lead audit partner for the audit of the financial statements of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III for the financial year ended 30 June 2024, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Weng W Ching
Partner
Chartered Accountants

FSREC PROPERTY FUND FINANCIAL STATEMENTS



FSREC Property Fund
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2024

		Year ended	
	Note	30 June 2024 \$'000	30 June 2023 \$'000
Income			
Rental income		49,571	48,103
Other property income		12,325	11,820
Finance income		180	107
Fair value movement of investment properties	11	3,457	(10,841)
Total income		65,533	49,189
Expenses			
Investment property expenses		24,944	23,740
Finance expense	5	12,175	9,518
Responsible Entity and Trustee fees	22	200	972
Management fees	22	5,764	5,722
Accounting and audit fees		485	444
Other expenses	6	295	883
Total expenses		43,863	41,279
Profit for the year		21,670	7,910
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge	5	(3,662)	(554)
Other comprehensive loss for the year		(3,662)	(554)
Total comprehensive income for the year		18,008	7,356
Profit for the year attributable to:			
Ordinary securityholders of the Fund			
- Unitholders of FSREC Fund I		18,991	6,832
- Unitholders of FSREC Fund II and FSREC Fund III		2,679	1,077
Other non-controlling interest		-	1
		21,670	7,910
Total comprehensive income for the year attributable to:			
Ordinary securityholders of the Fund			
- Unitholders of FSREC Fund I		15,329	6,278
- Unitholders of FSREC Fund II and FSREC Fund III		2,679	1,077
Other non-controlling interest		-	1
		18,008	7,356
		Cents	Cents
Basic earnings per stapled security	7	8.78	3.20
Diluted earnings per stapled security	7	8.78	3.20

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

FSREC Property Fund
Consolidated statement of financial position
As at 30 June 2024

		As at	
	Note	30 June 2024 \$'000	30 June 2023 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	9,984	8,698
Trade and other receivables	10	1,882	5,023
Derivative financial instruments		2,082	3,777
Prepayments		1,469	1,345
Total current assets		15,417	18,843
Non-current assets			
Investment properties	11	704,100	698,000
Derivative financial instruments		790	2,291
Total non-current assets		704,890	700,291
Total assets		720,307	719,134
Liabilities			
Current liabilities			
Trade and other payables	12	8,284	10,950
Borrowings	13	262,050	-
Derivative financial instruments		143	-
Distributions payable		4,567	4,575
Total current liabilities		275,044	15,525
Non-current liabilities			
Borrowings	13	-	258,322
Derivative financial instruments		259	-
Total non-current liabilities		259	258,322
Total liabilities		275,303	273,847
Net assets		445,004	445,287
Equity			
Issued capital	14	178,376	178,376
Cash flow hedge reserve	15	1,952	5,614
Retained profits		52,760	46,247
Equity attributable to the securityholders of FSREC Fund I		233,088	230,237
Total equity attributable to other members of the Fund – FSREC Fund II and FSREC Fund III		211,916	215,027
Other non-controlling interest	16	-	23
Total equity		445,004	445,287

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

FSREC Property Fund
Consolidated statement of changes in equity
For the year ended 30 June 2024

	Issued capital \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Equity attributable to other members - FSREC Fund II and FSREC Fund III \$'000	Other non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2023	178,376	5,614	46,247	215,027	23	445,287
Profit for the year	-	-	18,991	2,679	-	21,670
Other comprehensive loss for the year	-	(3,662)	-	-	-	(3,662)
Total comprehensive (loss)/income for the year	-	(3,662)	18,991	2,679	-	18,008
Acquisition of other non- controlling interest	-	-	-	-	(23)	(23)
<i>Transactions with securityholders in their capacity as securityholders:</i>						
Distributions declared (Note 17)	-	-	(12,478)	(5,790)	-	(18,268)
Balance at 30 June 2024	178,376	1,952	52,760	211,916	-	445,004

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

FSREC Property Fund
Consolidated statement of changes in equity
For the year ended 30 June 2024

	Issued capital \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Equity attributable to other members - FSREC Fund II and FSREC Fund III \$'000	Other non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2022	176,925	6,168	51,340	219,081	23	453,537
Profit for the year	-	-	6,832	1,077	1	7,910
Other comprehensive loss for the year	-	(554)	-	-	-	(554)
Total comprehensive (loss)/income for the year	-	(554)	6,832	1,077	1	7,356
Distributions to other non- controlling interest	-	-	-	-	(1)	(1)
<i>Transactions with securityholders in the capacity as securityholders:</i>						
Issue of stapled securities (Note 14)	45,699	-	-	42,704	-	88,403
Redemption of stapled securities (Note 14)	(44,170)	-	-	(41,419)	-	(85,589)
Redemption costs (Note 14)	(78)	-	-	(73)	-	(151)
Distributions declared (Note 17)	-	-	(11,925)	(6,343)	-	(18,268)
Balance at 30 June 2023	178,376	5,614	46,247	215,027	23	445,287

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

FSREC Property Fund
Consolidated statement of cash flows
For the year ended 30 June 2024

		Year ended	
	Note	30 June 2024 \$'000	30 June 2023 \$'000
Cash flows from operating activities			
Rental and other property income received		68,294	68,595
Interest income received		180	107
Finance costs		(10,938)	(8,407)
Payments to suppliers		(40,214)	(42,619)
Net cash from operating activities	9	17,322	17,676
Cash flows from investing activities			
Receipt of insurance proceeds for restoration works		3,239	16,920
Payments for capital expenditure		(3,876)	(21,688)
Net cash used in investing activities		(637)	(4,768)
Cash flows from financing activities			
Gross proceeds from borrowings		2,900	2,000
Issue of stapled securities, net of costs		-	88,403
Payment of redemption of stapled securities and redemption costs		-	(85,740)
Acquisition of other non-controlling interest		(23)	-
Distributions paid		(18,276)	(18,641)
Net cash used in financing activities		(15,399)	(13,978)
Net increase/(decrease) in cash and cash equivalents		1,286	(1,070)
Cash and cash equivalents at the beginning of the financial year		8,698	9,768
Cash and cash equivalents at the end of the financial year	8	9,984	8,698

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2024

1. General information

These financial statements cover FSREC Property Fund (**the Fund**), which is a stapled group comprising of Fort Street Real Estate Capital Fund I and its controlled entities. Fort Street Real Estate Capital Fund I is an unlisted managed investment scheme registered and domiciled in Australia. The controlled entities of Fort Street Real Estate Fund I include subsidiaries by way of ownership interests (collectively, **FSREC Fund I**) and other members of the stapled group, being Fort Street Real Estate Capital Fund II and its controlled entities (collectively, **FSREC Fund II**) and Fort Street Real Estate Capital Fund III and its controlled entities (collectively, **FSREC Fund III**). The principal activity of the Fund is to invest in Australian commercial property.

ISPT Pty Ltd, as trustee for the ISPT Retail Australia Property Trust (FSREC Fund), is the majority securityholder and ultimate controlling entity of the Fund.

The Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III (together, **the Schemes**) is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975) (**the Responsible Entity**). The Responsible Entity's registered office is Level 1, 575 Bourke Street, Melbourne, VIC 3000. The consolidated financial statements are presented in the Australian currency unless otherwise noted.

The Responsible Entity of the Schemes takes responsibility for the financial reports of the Schemes. The consolidated financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

2. Summary of material accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

Basis of preparation

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The Fund, comprising of FSREC Fund I, FSREC Fund II and FSREC Fund III stapled together from 23 December 2020, operates as a single coordinated economic entity with a common board of directors and management team. In accordance with the Australian Accounting Standards, the stapling of FSREC Fund I, FSREC Fund II and FSREC Fund III is accounted for as a business combination. FSREC Fund I has been determined as the accounting acquirer and is therefore deemed to be the parent in the consolidated financial statements. In accounting for this business combination, the assets and liabilities of FSREC Fund II and FSREC Fund III have been recognised at their fair values at the date of acquisition with the corresponding recognition of the unitholders' equity in FSREC Fund II and FSREC Fund III in "Equity attributable to other members" in the consolidated statement of changes in equity. "Equity attributable to other members" in the consolidated statement of changes in equity represents the interest of the unitholders of FSREC Fund II and FSREC Fund III in the Fund by virtue of the stapling arrangement.

The financial statements of the Fund have been prepared in accordance with an ASIC Order 21-0740 issued on 14 September 2021. The Relief Instrument allows the Fund to present the consolidated financial statements of the relevant entity (FSREC Fund I) in one section and all other reporting group members (FSREC Fund II and FSREC Fund III) in a separate section in adjacent columns.

The financial instruments have been prepared on an accruals basis and are based on historical cost except for investment properties and certain financial instruments which are measured at fair value.

i. Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (**IASB**).

ii. New and amended standards adopted by the Fund

The Fund has applied the following standards and amendments for the first time for its financial year beginning 1 July 2023:

- AASB 2021-2 *Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates* [AASB 7, AASB 101, AASB 108 & AASB Practice Statement 2].

2. Summary of material accounting policies (continued)

The amendments have had an impact on the Fund's disclosures of accounting policies, including the requirement to disclose 'material' rather than 'significant' accounting policies, but not on the measurement, recognition or presentation of any items in the Fund's financial statements.

None of the other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2023 have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

iii. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2024 and have not been early adopted in preparing these financial statements.

None of these are expected to have a material effect on the financial statements of the Fund.

Functional and presentation currency

Balances included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

Removal of parent entity financial statements

The Fund has applied amendments to the *Corporations Act 2001* that remove the requirement for the Fund to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 21.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Fund and the results of all subsidiaries for the reporting period.

Subsidiaries are all those entities over which the Fund has control. The Fund controls an entity when the Fund is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Judgement is used when assessing an entity for control. Subsidiaries are fully consolidated from the date on which control is transferred to the Fund. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Fund are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Fund.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Fund. Losses incurred by the Fund are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Fund loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Fund recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

2. Summary of material accounting policies (continued)

Income

i. Rental income

Rental income from operating leases is recognised as income over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. When the Fund provides lease incentives to tenants, the cost of the incentives are initially capitalised and then recognised over the lease term on a straight-line basis, as a reduction in rental income.

Costs that are directly associated with negotiating and executing ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are expensed over the lease term on the same basis as the rental income.

ii. Other property income

The Fund recovers from tenants a portion of costs incurred by the Fund in the operation and maintenance of its investment properties. The Fund, acting as principal, incurs these costs with third party suppliers and includes them within direct property expenses in the statement of profit or loss and other comprehensive income. Recovery amounts are invoiced to tenants over time at the start of each month for the provision of that month's services based on an annual estimate. Accordingly, where recovery amounts are received in advance, no adjustment is made for the effects of a financing component. Adjustments to reflect recoveries based on actual costs incurred are recorded within revenue in the statement of profit or loss and other comprehensive income and billed annually.

Expenses

All expenses are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Interest expense from financial liability at amortised cost is recognised using the effective interest method and includes interest expenses from the credit facility.

Taxes

i. Income tax

Under current Australian income tax laws, the Fund is not liable to pay income tax provided it is not a public trading trust and its distributable income for each income year is fully distributed to unitholders, by way of cash or reinvestment.

ii. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except to the extent the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the unrecoverable GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Where fees are stated to be exclusive of GST and GST is payable on any fee, the fee will be increased by an amount equal to the GST payable.

Cash flows are presented in the statement of cash flows on a gross basis.

Earnings per stapled security

Basic earnings per stapled security is calculated by dividing the profit or loss attributable to securityholders by the weighted average number of stapled securities outstanding during the financial period. Diluted earnings per stapled security is the same as there are no potential dilutive ordinary securities.

Financial instruments

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the Fund becomes a party to the contractual provisions of the instrument.

2. Summary of material accounting policies (continued)

i. Financial assets

When financial assets are recognised initially, they are measured at fair value (other than for financial assets at fair value through profit or loss), plus directly attributable transaction costs. Financial assets are subsequently measured at amortised cost using the effective interest rate method only if the following conditions are met, otherwise they are measured at fair value:

- where a financial asset is held within a business model for the objective to collect contractual cash flows; and
- contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest rate method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

Impairment of financial assets

The Fund recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Fund's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

ii. Financial liabilities

Financial liabilities are classified as derivative and non-derivative instruments as appropriate. The Fund determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value. Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method. Derivative instruments are recorded at fair value, with gains arising on changes in fair value recognised in profit or loss to the extent they are not part of a designated hedge relationship.

iii. Recognition and Derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

2. Summary of material accounting policies (continued)

iv. Derivative financial instruments

The Fund enters into derivative financial instruments in the form of interest rate swap agreements, which are used to convert the variable interest rate of its borrowings to fixed interest rates. For the purposes of hedge accounting, these hedges are cash flow hedges. The swaps are entered into with the objective of reducing the risk associated with interest rate fluctuations. At inception the Fund documents the relationship between the hedging instrument and the hedged item along with its risk management objectives.

Derivative financial instruments are stated at fair value.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and any inefficient portion is considered a finance cost and is recognised in profit or loss in the statement of profit or loss and other comprehensive income. The cumulative gain or loss previously recognised in other comprehensive income and presented in the cash flow hedge reserve in equity remains there until the forecast transaction affects profit or loss, at which point it is transferred to profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively.

Investment properties

Investment properties are commercial real estate investments held to earn long-term rental income and for capital appreciation.

Investment properties are measured at fair value with gains and losses arising from changes in the fair value included in profit or loss in the period in which they arise. Refer to Note 3 for details regarding valuation basis adopted including methodology and significant assumptions.

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 property. 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 profit or loss in the period in which the property is derecognised. Refer to Note 11 for further details.

Land and buildings are considered as having the function of an investment and therefore are regarded as a composite asset, the overall value of which is influenced by many factors, the most prominent being income yield, rather than by the reduction in value of the building content due to the passing of time. Accordingly, the buildings and all components thereof, including integral plant and equipment for the building, are not depreciated.

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

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as trading of these securities represents the Fund's main income generating activity.

Receivables

Receivables are non-derivative financial assets with a contractual right to receive fixed or determinable payments. Receivables are recorded at amortised cost using the effective interest rate method, less any loss allowance for trade receivables at an amount equal to lifetime expected credit losses (ECL).

2. Summary of material accounting policies (continued)

Impairment of assets

At each reporting date, the Fund shall assess whether there is an indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount through profit or loss.

Borrowings

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

Trade and other payables

Trade and other payables are recognised when the Fund becomes obliged to make payments resulting from the purchase of goods or services. The balance is unsecured and is recognised as a current liability with the amount being normally paid within 30 days of the recognition of the liability.

Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Fair value measurement

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

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

Unit capital

i. Ordinary units

Ordinary units are classified as equity. Issued capital is recognised at the fair value of consideration received by the Fund. Incremental costs directly attributable to the issue of ordinary units are recognised as a deduction from equity.

ii. Distribution to securityholders

Distributions are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the board of the Responsible Entity. The distributions are recognised in the statement of changes in equity.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Fund assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Fund's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

2. Summary of material accounting policies (continued)

Where the business combination is achieved in stages, the Fund remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Rounding of amounts

The Fund is an entity of a kind referred to in ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191 relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Critical accounting judgements, estimates and assumptions

In the application of the Fund's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies which are subject to significant accounting estimates and judgements include the fair value assessment of investment properties.

In determining the fair value of the investment properties, the properties are independently appraised at each reporting date, June and December.

Independent valuers are engaged, having appropriate professional qualifications and recent experience in the location and category of property being valued. In accordance with the Fund's policy, the independent valuers are rotated such that the same independent valuer cannot value an asset for more than two consecutive years.

The independent valuer determines the most appropriate valuation method for each property. Methods used during the year were Discounted Cash Flow (DCF) and capitalisation rate methods based on market conditions existing at balance date.

3. Critical accounting judgements, estimates and assumptions (continued)

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates applied in the DCF method.

4. Working capital

As at 30 June 2024, the Fund's consolidated statement of financial position reflects a deficiency in net current assets of \$259,627,257 (30 June 2023: positive net current assets of \$3,317,983), positive net assets of \$445,003,764 (30 June 2023: \$445,287,067) and cash and cash equivalents of \$9,983,918 (30 June 2023: \$8,698,190). The deficiency in net current assets is primarily due to the classification of borrowings totalling \$262,049,947 as current liabilities of the Fund at 30 June 2024, as the loan facility is due to expire on 19 April 2025. The directors are confident based on the Fund's discussions to date with its financiers that the facility will be renewed or refinanced within the expiration period.

In addition, the Fund's cash flow forecast supports the directors' opinion that the Fund's working capital position will remain positive for at least the next twelve months from the date of signing the consolidated financial statements.

Accordingly, the consolidated financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

5. Finance expense

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Recognised directly in profit or loss		
Interest expense on financial liabilities measured at amortised cost	12,949	9,189
Interest income on cash flow hedge	(3,544)	(2,299)
Other finance costs - including facility line fees and amortisation of loan establishment costs	2,743	2,628
Fair value movement of derivative financial instruments	27	-
	<u>12,175</u>	<u>9,518</u>
Finance expense recognised directly in profit or loss	12,175	9,518
	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Recognised in other comprehensive income		
Net losses on cash flow hedge for the year:		
- Realised gains transferred to profit or loss as finance expense	(3,544)	(2,299)
- Unrealised (losses)/gains on cash flow hedge	(118)	1,745
	<u>(3,662)</u>	<u>(554)</u>
Net losses on interest rate swaps recognised in other comprehensive income	(3,662)	(554)

FSREC Property Fund
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6. Other expenses

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Legal and compliance costs	25	453
Other operating expenses	270	430
Total other expenses	295	883

7. Earnings per stapled security

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Profit for the year	21,670	7,910
Other non-controlling interest	-	(1)
Profit attributable to the securityholders of FSREC Property Fund	21,670	7,909
	Number	Number
Weighted average number of securities used in calculating basic earnings per stapled security	246,872,662	246,874,772
Weighted average number of securities used in calculating diluted earnings per stapled security	246,872,662	246,874,772
	Cents	Cents
Basic earnings per stapled security	8.78	3.20
Diluted earnings per stapled security	8.78	3.20

8. Cash and cash equivalents

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	9,984	8,698

Cash at bank earns interest at floating rates based on daily bank deposit rates.

FSREC Property Fund
Notes to the consolidated financial statements
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8. Cash and cash equivalents (continued)

a) Reconciliation to statement of cash flows

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the year as follows:

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Balance per above	9,984	8,698
Balance per statement of cash flows	9,984	8,698

At 30 June 2024, the Fund had available \$37,484,000 (30 June 2023: \$40,384,000) of an undrawn committed borrowing facility. Details of the borrowing facility are set out in Note 13.

9. Cash flow information

a) Reconciliation of profit to net cash from operating activities

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Profit for the year	21,670	7,910
Adjustments for:		
Fair value movement of investment properties	(3,457)	10,841
Fair value movement of derivative financial instruments	27	-
Tenant incentives, rental straight-lining and other adjustments	(489)	(1,007)
Amortisation of borrowing costs	828	717
Amortisation of early swap termination	-	(456)
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	418	(1,159)
Increase in prepayments	(124)	(118)
(Decrease)/increase in payables	(1,551)	948
Net cash from operating activities	17,322	17,676

b) Net debt reconciliation

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Reconciliation of net debt movements		
Secured bank loan balance at the beginning of the year	258,322	255,605
Changes from financing cash flows:		
Proceeds from borrowings	2,900	2,000
Non-cash changes:		
Amortisation of borrowing costs	828	717
Secured bank loan balance at the end of year	262,050	258,322

FSREC Property Fund
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10. Trade and other receivables

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
<i>Current assets</i>		
Rental and outgoing receivables	1,526	1,675
Less: allowance for expected credit losses	(515)	(533)
	<u>1,011</u>	<u>1,142</u>
Accrued rental income	871	1,091
Receivable from insurers	-	2,649
GST receivable	-	141
	<u>-</u>	<u>-</u>
Total trade and other receivables	<u>1,882</u>	<u>5,023</u>

Rental and outgoing receivables are non-interest bearing and are due in advance on the first day of each month.

Receivable from insurers comprises of capital spent on rectification works to be reimbursed by insurers in relation to Toormina Gardens. Refer to Note 11 for further information on investment properties.

The expected credit losses (**ECL**) on rental and outgoing receivables are estimated using a provision matrix by reference to the ageing of receivables balance and an analysis of specific debtors at reporting date. An allowance for ECL has been recognised in respect of outstanding amounts at balance date that, based on historical experience, are unlikely to be collected at their recorded amounts. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The following table details the risk profile of rental and outgoing receivables based on the Fund's provision matrix.

	30 June 2024 (\$'000)				Total
	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	
Expected credit losses rate	5%	36%	83%	100%	34%
Rental and outgoing receivables	873	248	126	279	1,526
Expected credit losses	43	89	104	279	515

	30 June 2023 (\$'000)				Total
	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	
Expected credit losses rate	3%	16%	27%	74%	32%
Rental and outgoing receivables	674	173	268	560	1,675
Expected credit losses	17	28	73	415	533

FSREC Property Fund
Notes to the consolidated financial statements
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11. Investment properties

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Disclosed in consolidated statement of financial position as:		
<i>Non-current assets</i>		
Investment properties - at fair value	<u>704,100</u>	<u>698,000</u>
<i>Movement in investment properties - at fair value</i>		
Carrying amount of investment properties at beginning of year	698,000	703,700
Capital expenditure	2,172	4,134
Tenant incentives, rental straight-lining and other adjustments	471	1,007
Fair value movement	<u>3,457</u>	<u>(10,841)</u>
Carrying amount of investment properties at end of year	<u>704,100</u>	<u>698,000</u>

Fair value

At reporting date, the Fund's investment properties consist of twelve commercial properties in Australia which are carried at fair value.

The 30 June 2024 fair value amounts were determined by way of independent valuation on all investment properties using a combination of discounted cash flow (DCF) and capitalisation rate methods based on market conditions existing at balance date.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (range 5.50% - 6.75%) applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.25% - 7.50%) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa. An increase or decrease of 0.25% to the capitalisation rate adopted at 30 June 2024 would result in a change in the portfolio valuation, by a decrease of \$28.2 million or an increase of \$30.7 million.

Refer to Note 18 for further information on fair value measurement.

Leasing arrangements

Investment properties are leased to tenants under operating leases for a term of generally 20 years for major tenants and 5 to 7 years for all other tenants. Rental income is payable monthly in advance. The minimum lease payments receivable on investment property leases are as follows:

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Minimum lease payments receivable but not recognised in the financial statements:		
Within one year	50,045	50,536
One to five years	120,565	130,541
More than five years	<u>73,249</u>	<u>52,043</u>
	<u>243,859</u>	<u>233,120</u>

FSREC Property Fund
Notes to the consolidated financial statements
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12. Trade and other payables

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	151	472
Accrued liabilities	6,245	7,407
Contract liabilities (deferred income)	1,021	2,387
GST payable	867	684
	<u>8,284</u>	<u>10,950</u>
Total trade and other payables	8,284	10,950

The average credit period for trade payables is generally 30 days. No interest is charged on trade payables from the date of the invoice. The Fund has risk management policies to ensure payables are paid within credit terms.

Refer to Note 19 for further information on financial instruments.

13. Borrowings

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
<i>Current liabilities</i>		
Secured bank loan - net of borrowing costs	262,050	-
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	-	258,322
	<u>262,050</u>	<u>258,322</u>

Refer to Note 19 for further information on financial instruments.

Financing arrangements

As at 30 June 2024, the Fund had a \$300 million loan facility (30 June 2023: \$300 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 19 April 2025.

As at 30 June 2024, the Fund's facility is as follows:

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Total facilities		
Secured bank loan facilities	300,000	300,000
Used at the reporting date		
Secured bank loan facilities	262,516	259,616
Unused at the reporting date		
Secured bank loan facilities	37,484	40,384

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13. Borrowings (continued)

The Fund has entered into a series of interest rate swap contracts with a notional amount of \$156.0 million (30 June 2023: \$181.0 million) whereby it pays a fixed rate of interest and receives a variable rate based on BBSY (3 month) on the notional amount. At 30 June 2024, after taking into account the remaining interest rate swaps, 59.4% (30 June 2023: 69.7%) of the Fund's borrowings are hedged. The Fund's average cost of drawn debt is approximately 4.51% (30 June 2023: 3.58%) (excluding costs relating to undrawn debt).

The drawn amount is secured against investment properties held by the Fund with a carrying value of \$704.1 million at balance date and is subject to compliance with specified covenants and other requirements.

There were no defaults or covenant breaches with respect to the loan during the financial year.

14. Issued capital

Movement in issued units

	Year ended			
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	Units*	Units*	\$'000	\$'000
Balance at the beginning of the year	246,872,662	246,911,167	178,376	176,925
Issue of FSREC Fund I units	-	48,045,278	-	45,699
Issue costs	-	-	-	-
Redemption of FSREC Fund I units	-	(48,083,783)	-	(44,170)
Redemption costs	-	-	-	(78)
Balance at the end of the year	246,872,662	246,872,662	178,376	178,376

*Total stapled securities of the Fund at 30 June 2024 are 246,872,662 (30 June 2023: 246,872,662) with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

Following a final withdrawal offer that closed on 8 July 2022, the Fund redeemed 48,083,783 stapled securities at a redemption price of \$1.78 and issued 48,045,278 stapled securities to ISPT Retail Australia Property Trust (FSREC Fund) at an application price of \$1.84 on 20 July 2022.

There has been no movement in issued units in the year.

The contributed equity of FSREC Fund II and FSREC Fund III are included in "Equity attributable to other members" in the consolidated statement of changes in equity.

Capital risk management

The Fund manages its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of the Fund consists of issued capital net of issue costs amounting to \$178,376,432 (30 June 2023: \$178,376,432).

The Fund is not subject to any externally imposed capital requirements.

The debt to equity ratio at 30 June 2024 was 58.89% (30 June 2023: 58.01%).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2024, the gearing ratio of total amount drawn of \$262,516,000 (30 June 2023: \$259,616,000) to the total value of investment properties of \$704,100,000 (30 June 2023: \$698,000,000) was 37.28% (30 June 2023: 37.19%).

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15. Cash flow hedge reserve

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Cash flow hedge reserve	<u>1,952</u>	<u>5,614</u>

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by the Fund.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Cash flow hedge reserve \$'000
Balance at 1 July 2022	6,168
Unrealised gains on cash flow hedge reserve	1,745
Realised gains transferred to profit or loss as finance expense	<u>(2,299)</u>
Balance at 30 June 2023	5,614
Unrealised losses on cash flow hedge reserve	(118)
Realised gains transferred to profit or loss as finance expense	<u>(3,544)</u>
Balance at 30 June 2024	<u>1,952</u>

16. Other non-controlling interest

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Issued capital	-	50
Retained profits	<u>-</u>	<u>(27)</u>
Total other non-controlling interest	<u>-</u>	<u>23</u>

During the year, the Fund acquired the non-controlling interests of 0.02% in Australian Property Opportunities Trust III and 0.03% in Fort Street Real Estate Capital Trust IV. As at 30 June 2024, there are no non-controlling interests in either trust (30 June 2023: 0.02% and 0.03%. respectively).

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17. Distributions

Distributions declared during the financial year were as follows:

	Year ended 30 June 2024		Year ended 30 June 2023	
	\$'000	CPU	\$'000	CPU
For the quarter ended 30 September	4,567	1.85	4,567	1.85
For the quarter ended 31 December	4,567	1.85	4,567	1.85
For the quarter ended 31 March	4,567	1.85	4,567	1.85
For the quarter ended 30 June	4,567	1.85	4,567	1.85
Total distributions	18,268	7.40	18,268	7.40

18. Fair value measurement

Fair value of the Fund's assets and liabilities that are measured at fair value on a recurring basis

The Fund measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

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

As at 30 June 2024	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investment properties	-	-	704,100	704,100
Derivative financial instruments	-	2,872	-	2,872
Total assets	-	2,872	704,100	706,972
<i>Liabilities</i>				
Derivative financial instruments	-	402	-	402
Total liabilities	-	402	-	402
As at 30 June 2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investment properties	-	-	698,000	698,000
Derivative financial instruments	-	6,068	-	6,068
Total assets	-	6,068	698,000	704,068

An interest rate swap contract has been entered into by the Fund to hedge a portion of the exposure to the variable interest rate payments on the variable secured bank loan (refer to Note 13 for details). The loan and interest rate swap have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swaps at the reporting date was a net asset of \$2,871,622 (30 June 2023: \$6,068,275).

18. Fair value measurement (continued)

The valuation technique applied to fair value the swap derivative includes traditional swap models, using present value calculations.

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial year.

Fair value of the Fund's assets and liabilities that are not measured at fair value on a recurring basis

The fair value of assets and liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

19. Financial instruments

Financial risk management objectives

The Responsible Entity has overall responsibility for the establishment and oversight of the risk management framework, including developing and monitoring risk management policies. Financial risk and capital management is carried out by the Investment Manager which provides advice in relation to commercial matters regarding the Fund.

The Fund's principal financial liabilities, other than derivatives, are loans and borrowings. The main purpose of the Fund's loans and borrowings is to finance the acquisition of the Fund's property portfolio including subsequent capital expenditure. The Fund also has rent and other receivables, trade and other payables, and cash that arise directly from its operations.

The Fund is exposed to the following risks from its use of financial instruments:

- market risk (interest rate risk and real estate risk)
- credit risk
- liquidity risk

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Fund's income or the value of its financial instruments. The Fund has entered into derivative financial instrument to manage its exposure to interest rate risk in respect of its borrowings.

Interest rate risk

Interest rate risk is the risk that cash flows associated with financial instruments will fluctuate due to changes in market interest rates. The Fund's exposure to interest rate risk arises from its long-term floating rate borrowings and cash at bank.

To manage its interest rate risk, the Fund enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations and therefore remove profit or loss sensitivity to interest rate movements.

	As at 30 June 2024		As at 30 June 2023	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	2.84%	9,984	2.22%	8,698
Exposed debt not covered by swap instruments	4.93%	(106,516)	3.54%	(78,616)
Net exposure to cash flow interest rate risk		(96,532)		(69,918)

19. Financial instruments (continued)

Sensitivity analysis

The following sensitivity analysis shows the effect on the Fund's profit or loss, and equity and has been determined assuming the variable interest cash balance outstanding at year end was outstanding for the whole year and based on a 25 basis point change in interest rates taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables held constant. As shown in Note 13, the interest rate exposure in respect of the Fund's borrowings is 59.4% hedged.

		Basis points increase			Basis points decrease	
	Basis points change	Effect on profit \$'000	Effect on equity \$'000	Basis points change	Effect on profit \$'000	Effect on equity \$'000
As at 30 June 2024						
Cash and cash equivalents	25	17	17	(25)	(17)	(17)
Cash flow hedge	25	-	765	(25)	-	(780)
Exposed debt not covered by swaps	25	(266)	(266)	(25)	266	266
		<u>(249)</u>	<u>516</u>		<u>249</u>	<u>(531)</u>
	Basis points change	Effect on profit \$'000	Effect on equity \$'000	Basis points change	Effect on profit \$'000	Effect on equity \$'000
As at 30 June 2023						
Cash and cash equivalents	25	22	22	(25)	(22)	(22)
Cash flow hedge	25	-	904	(25)	-	(268)
Exposed debt not covered by swaps	25	(197)	(197)	(25)	197	197
		<u>(175)</u>	<u>729</u>		<u>175</u>	<u>(93)</u>

Credit risk

The Fund has adopted a lifetime expected loss allowance in estimating ECL to trade receivables. These provisions are considered representative across all customers of the Fund based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than six months.

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Fund is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

	As at	
	30 June 2024 \$'000	30 June 2023 \$'000
Summary of exposure		
Cash and cash equivalents	9,984	8,698
Trade and other receivables	1,882	5,023
Derivative financial assets	<u>2,872</u>	<u>6,068</u>
	<u>14,738</u>	<u>19,789</u>

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2024

19. Financial instruments (continued)

Cash and cash equivalents

The Fund manages credit risk on cash and cash equivalents by ensuring deposits are made with reputable financial institutions with investment grade credit ratings.

Trade and other receivables

Credit risk is managed by requiring tenants to pay rentals in advance and through the provision of rental security deposits and guarantees. The credit quality of the tenant is assessed at the time of entering into a lease agreement and review on tenants arrears is performed regularly. No interest is charged from the date of the invoice. A loss allowance of \$515,428 (30 June 2023: \$532,623) has been recognised in respect of outstanding amounts at balance date.

Derivative financial assets

Derivative counterparties are made with reputable financial institutions with investment grade credit ratings. Management performs ongoing monitoring of settlements based on contract terms.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations as they fall due.

Financing arrangements

Unused borrowing facilities at the reporting date:

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Secured bank loan facilities	37,484	40,384

The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity (including undrawn borrowing facilities) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The cash flow forecasts are regularly updated and reviewed to assist in managing the Fund's liquidity.

The following is the contractual maturity of financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The table includes both interest and principal cash flows.

As at 30 June 2024	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivative financial liabilities				
Trade payables	151	-	-	151
Accrued liabilities	6,245	-	-	6,245
GST payable	867	-	-	867
Distributions payable	4,567	-	-	4,567
Borrowings	273,247	-	-	273,247
Total non-derivatives	285,077	-	-	285,077
Derivative financial liabilities				
Cash flow hedge	(81)	290	-	209
Total derivatives	(81)	290	-	209

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2024

19. Financial instruments (continued)

As at 30 June 2023	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivative financial liabilities				
Trade payables	472	-	-	472
Accrued liabilities	7,407	-	-	7,407
GST payable	684	-	-	684
Distributions payable	4,575	-	-	4,575
Borrowings	12,060	271,417	-	283,477
Total non-derivatives	25,198	271,417	-	296,615

20. Controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 2:

Name	Entity type	Principal place of business/ Country of incorporation/ Tax residency	Ownership interest Year ended	
			30 June 2024	30 June 2023
			%	%
Controlled entities of Fort Street Real Estate Capital Fund I				
Australian Property Opportunities Trust	Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund IV	Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Trust IV	Trust	Australia	100.00%	99.97%
FSREC IV No.1 Trust	Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund II*	Trust	Australia	-	-
Australian Property Opportunities Trust II	Trust	Australia	-	-
APOT II No.1	Trust	Australia	-	-
Fort Street Real Estate Capital Fund III*	Trust	Australia	-	-
Australian Property Opportunities Trust III	Trust	Australia	-	-
APOT III No.1 Trust	Trust	Australia	-	-

*Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III, along with their controlled entities as disclosed above, are considered controlled entities of Fort Street Real Estate Capital Fund I for financial reporting purposes due to the stapling arrangements described in Note 1, despite the absence of ownership interests.

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2024

21. Parent entity information

During the year ended 30 June 2024, the parent entity of the Fund was Fort Street Real Estate Capital Fund I (**FSREC Fund I**).

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
<i>Summarised statement of financial position</i>		
Current assets	3,360	3,487
Non-current assets	218,458	218,458
Total assets	221,818	221,945
Current liabilities	48,486	48,688
Total liabilities	48,486	48,688
Net assets	173,332	173,257
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	12,909	10,910
Expenses	(356)	(1,075)
Profit for the year	12,553	9,835
Other comprehensive income	-	-
Total comprehensive income	12,553	9,835
<i>Unitholders' equity in the parent entity</i>		
Issued capital	178,376	178,376
Accumulated losses	(5,044)	(5,119)
Total equity	173,332	173,257

As at 30 June 2024, FSREC Fund I's statement of financial position reflects a deficiency in net current assets of \$45,126,438. The deficiency is primarily attributable to amounts payable to FSREC Fund III of \$45,242,729 classified as current liabilities. The Responsible Entity of FSREC Fund III have confirmed in writing that they will not call for repayment of the amounts payable by FSREC Fund I if such action would cause FSREC Fund I to be unable to pay its debts as and when they fall due and payable.

The parent entity does not have any contingent liabilities, contractual commitments and has not entered into any guarantees during or since the end of the financial year (30 June 2023: nil).

22. Related party transactions

Parties are considered to be related to the Fund if they have the ability, directly or indirectly, to control or exercise significant influence over the Fund in making financial and operating disclosures. Related parties may be individual or other entities.

The Responsible Entity of FSREC Property Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The related parties of the Fund with which it had transactions during the year ended 30 June 2024 are as follows:

Related party	Relationship
Equity Trustees Limited and its associates	Significant influence
Fort Street Real Estate Capital Pty Ltd	Common ultimate controlling entity
Fort Street Real Estate Development Pty Ltd	Common ultimate controlling entity
Fort Street Real Estate Leasing Pty Ltd	Common ultimate controlling entity
Fort Street Capital Pty Ltd	Common ultimate controlling entity

a) Key management personnel

i. Directors

Key management personnel include persons who were directors of Equity Trustees Limited at any time during or since the end of the financial year and up to the date of this report.

Philip D Gentry	Chairman (resigned 6 June 2024)
Michael J O'Brien	Chairman (appointed 6 June 2024)
Russell W Beasley	
Mary A O'Connor	
David B Warren	
Andrew P Godfrey	(appointed 1 May 2024)

ii. Responsible Entity

Other than fees paid to the Responsible Entity, there were no other transactions.

iii. Other key management personnel

There were no other key management personnel with responsibility for planning, directing and controlling activities of the Fund, directly or indirectly during the financial year.

b) Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

c) Key management personnel stapled securities holdings

Key management personnel did not hold units in the Fund as at 30 June 2024 (30 June 2023: nil).

d) Key management personnel compensation

Key management personnel are paid by a related party of the Responsible Entity. Payments made from the Fund to the Responsible Entity do not include any amounts directly attributable to the compensation of key management personnel.

e) Key management personnel loans

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally related entities at any time during the reporting period.

f) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a significant contract with the Fund during the financial year and there were no significant contracts involving management personnel's interests existing at year end.

22. Related party transactions (continued)

g) Responsible Entity fees and other transactions

The transactions during the year and amounts payable as at year end between the Fund and the related parties were as follows:

	Year ended 30 June 2024		Year ended 30 June 2023	
	Transactions	Payable at year-end	Transactions	Payable at year-end
	\$	\$	\$	\$
Former Responsible Entity fees*	-	-	863,033	-
Responsible Entity fees*	141,575	36,700	79,514	37,767
Trustee fees*	57,968	14,829	29,543	13,960
Investment Manager fees**	3,862,275	-	3,907,260	378,819
Property Manager fees**	1,901,681	196,575	1,814,768	174,734
Development Manager fees***	13,500	-	15,250	4,004
Leasing Services fees***	464,112	-	709,424	-

*Responsible Entity and Trustee fees for the year ended 30 June 2024 totalling \$199,543 (30 June 2023: \$972,090) are included in the statement of profit or loss and other comprehensive income as Responsible Entity and trustee fees.

**Investment Manager fees and Property Manager fees for the year ended 30 June 2024 totalling \$5,763,956 (30 June 2023: \$5,722,028) are included in the statement of profit or loss and other comprehensive income as Management fees.

***Development Manager and Leasing services fees for the year ended 30 June 2024 totalling \$477,612 (30 June 2023: \$724,674) are capitalised as investment properties.

Trustee fee

The trustees of the Trusts in the Fund are as follows:

Trust	Trustee
Australian Properties Opportunities Trust	EQT Australia Pty Ltd
Fort Street Real Estate Capital Fund IV	EQT Responsible Entity Services Limited
Fort Street Real Estate Capital Trust IV	EQT Structured Finance Services Pty Ltd
FSREC IV No.1 Trust	EQT Australia Pty Ltd
Australian Properties Opportunities Trust II	EQT Responsible Entity Services Limited
APOT II No.1	EQT Australia Pty Ltd
Australian Properties Opportunities Trust III	EQT Responsible Entity Services Limited
APOT III No.1 Trust	EQT Australia Pty Ltd

The trustees of the Trusts are associates of the Responsible Entity and are entitled to a fee of \$7,000 per Trust (exclusive of GST), increasing by CPI annually.

Investment Manager fee

Fort Street Real Estate Capital Pty Ltd is engaged as the Fund's Investment Manager and receives the following fees (exclusive of GST):

- *Investment Manager fee* - 0.54% per annum calculated on the gross assets of the Fund and payable monthly;
- *Performance fee* - 10% of the Fund's outperformance against an 8% cumulative, non-compounded annual return (initially calculated on a three-year rolling basis ending 30 June 2023), subject to a High Watermark;
- *Acquisition fee* - 1.25% of the value of the property for acquisitions;
- *Disposal fee* - 1% of the sale value of the property for disposals, provided the net proceeds exceed the aggregate of the acquisition costs and capital costs of the relevant asset.

22. Related party transactions (continued)

Property Manager fee

Fort Street Real Estate Capital Pty Ltd is responsible for managing the property portfolios of the Trusts, optimising tenancy profile and maximising returns, and receives a fee of 3% per annum (exclusive of GST) calculated on the gross income of the Trusts, payable monthly.

Development Manager fee

Fort Street Real Estate Development Pty Ltd (**Development Manager**) provides development management services to the Fund where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% (exclusive of GST) of the total development costs incurred in connection with a development.

Leasing Services fee

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**) provides tenant leasing services to the Fund where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% (exclusive of GST) of the gross rent on new retail leases, and a fee of 7.5% (exclusive of GST) of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

h) Related party unit holdings in FSREC Property Fund

As at 30 June 2024, Fort Street Real Estate Capital Pty Ltd held 873,842 stapled securities (30 June 2023: 873,842 stapled securities), representing 0.35% interest and a fair value of investment of \$1,572,916 (30 June 2023: 0.35% and \$1,572,916) in the Fund.

Distributions paid or payable by the Fund to Fort Street Real Estate Capital Fund Pty Ltd in the year ended 30 June 2024 was \$64,664 (30 June 2023: \$64,664).

i) Investments

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the year (30 June 2023: nil).

23. Remuneration of auditor

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

	Year ended	
	30 June 2024	30 June 2023
	\$	\$
Deloitte Touche Tohmatsu		
<i>Audit services</i>		
Audit and review of the financial statements	279,440	265,484
<i>Taxation services</i>		
Tax compliance services	94,700	79,700
Total remuneration of Deloitte Touche Tohmatsu	374,140	345,184

24. Capital commitments

As at 30 June 2024, the Fund had committed \$1,562,800 in lease incentives arising from lease agreements (30 June 2023: \$3,433,508). There were no other capital commitments in respect of improvements to the existing properties.

25. Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2024 and 30 June 2023.

26. Events after the reporting period

No significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the consolidated statement of financial position as at 30 June 2024 or on the results and cash flows of the Fund for the year ended on that date.

FORT STREET REAL ESTATE CAPITAL FUND II AND FORT STREET REAL ESTATE CAPITAL FUND III FINANCIAL STATEMENTS



Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Consolidated statements of profit or loss and other comprehensive income
For the year ended 30 June 2024

		FSREC Fund II Year ended		FSREC Fund III Year ended	
	Note	30 June 2024 \$'000	30 June 2023 \$'000	30 June 2024 \$'000	30 June 2023 \$'000
Income					
Rental income		14,118	13,431	6,994	6,829
Other property income		2,605	2,257	1,096	1,749
Finance income		32	28	58	18
Fair value movement of investment properties	9	(1,883)	(4,819)	(750)	(359)
Total income		14,872	10,897	7,398	8,237
Expenses					
Investment property expenses		6,850	6,303	3,087	3,229
Finance expense	3	4,439	3,326	2,454	1,853
Responsible Entity and trustee fees	19	52	264	34	128
Management fees	19	1,552	1,538	752	759
Accounting and audit fees		156	138	82	86
Other expenses	4	80	249	53	184
Total expenses		13,129	11,818	6,462	6,239
Profit/(loss) for the year		1,743	(921)	936	1,998
Other comprehensive income for the year		-	-	-	-
Total comprehensive income/(loss) for the year		1,743	(921)	936	1,998
Profit/(loss) for the year attributable to:					
Non-controlling interest		-	-	-	-
Unitholders of FSREC Fund II and FSREC Fund III		1,743	(921)	936	1,998
		<u>1,743</u>	<u>(921)</u>	<u>936</u>	<u>1,998</u>
Total comprehensive income/(loss) for the year attributable to:					
Non-controlling interest		-	-	-	-
Unitholders of FSREC Fund II and FSREC Fund III		1,743	(921)	936	1,998
		<u>1,743</u>	<u>(921)</u>	<u>936</u>	<u>1,998</u>
Basic earnings/(loss) per unit	5	0.71	(0.37)	0.38	0.81
Diluted earnings/(loss) per unit	5	0.71	(0.37)	0.38	0.81

The above consolidated statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Consolidated statements of financial position
As at 30 June 2024

		FSREC Fund II		FSREC Fund III	
		As at		As at	
	Note	30 June 2024	30 June 2023	30 June 2024	30 June 2023
		\$'000	\$'000	\$'000	\$'000
Assets					
Current assets					
Cash and cash equivalents	6	2,668	2,781	3,063	1,251
Trade and other receivables	8	476	565	174	2,848
Prepayments		307	276	60	54
Total current assets		3,451	3,622	3,297	4,153
Non-current assets					
Investment properties	9	188,800	189,500	89,000	89,000
Receivable from other members of the stapled group		-	-	66,182	65,982
Total non-current assets		188,800	189,500	155,182	154,982
Total assets		192,251	193,122	158,479	159,135
Liabilities					
Current liabilities					
Trade and other payables	10	2,476	2,939	1,241	1,778
Borrowings	11	75,313	-	38,379	-
Distributions payable		998	825	417	447
Payable to other members of the stapled group		19,990	19,926	-	68
Total current liabilities		98,777	23,690	40,037	2,293
Non-current liabilities					
Borrowings	11	-	73,829	-	37,410
Total non-current liabilities		-	73,829	-	37,410
Total liabilities		98,777	97,519	40,037	39,703
Net assets		93,474	95,603	118,442	119,432
Equity					
Issued capital	12	85,807	85,807	131,825	131,825
Retained profits/(accumulated deficit)		7,667	9,796	(13,383)	(12,401)
Equity attributable to the unitholders of FSREC Fund II and FSREC Fund III		93,474	95,603	118,442	119,424
Non-controlling interest	13	-	-	-	8
Total equity		93,474	95,603	118,442	119,432

The above consolidated statements of financial position should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Consolidated statements of changes in equity
For the year ended 30 June 2024

FSREC Fund II	Issued capital \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2023	85,807	9,796	-	95,603
Profit for the year	-	1,743	-	1,743
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	1,743	-	1,743
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Distributions declared (Note 14)	-	(3,872)	-	(3,872)
Balance at 30 June 2024	85,807	7,667	-	93,474

FSREC Fund II	Issued capital \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2022	85,266	14,702	-	99,968
Loss for the year	-	(921)	-	(921)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	(921)	-	(921)
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Issue of units (Note 12)	19,485	-	-	19,485
Redemption of units (Note 12)	(18,911)	-	-	(18,911)
Redemption costs (Note 12)	(33)	-	-	(33)
Distributions declared (Note 14)	-	(3,985)	-	(3,985)
Balance at 30 June 2023	85,807	9,796	-	95,603

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Consolidated statements of changes in equity
For the year ended 30 June 2024

	Issued capital \$'000	Accumulated deficit \$'000	Non- controlling interest \$'000	Total Equity \$'000
FSREC Fund III				
Balance at 1 July 2023	131,825	(12,401)	8	119,432
Profit for the year	-	936	-	936
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	936	-	936
Acquisition of non-controlling interest	-	-	(8)	(8)
<i>Transactions with unitholders in their capacity as unitholders</i>				
Distributions declared (Note 14)	-	(1,918)	-	(1,918)
Balance at 30 June 2024	131,825	(13,383)	-	118,442

	Issued capital \$'000	Accumulated deficit \$'000	Non- controlling interest \$'000	Total equity \$'000
FSREC Fund III				
Balance at 1 July 2022	131,154	(12,041)	8	119,121
Profit for the year	-	1,998	-	1,998
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	1,998	-	1,998
Distributions paid to non-controlling interest	-	-	-	-
<i>Transactions with unitholders in their capacity as unitholders</i>				
Issue of units (Note 12)	23,219	-	-	23,219
Redemption of units (Note 12)	(22,508)	-	-	(22,508)
Redemption costs (Note 12)	(40)	-	-	(40)
Distributions declared (Note 14)	-	(2,358)	-	(2,358)
Balance at 30 June 2023	131,825	(12,401)	8	119,432

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Consolidated statements of cash flows
For the year ended 30 June 2024

		FSREC Fund II Year ended		FSREC Fund III Year ended	
	Note	30 June 2024 \$'000	30 June 2023 \$'000	30 June 2024 \$'000	30 June 2023 \$'000
Cash flows from operating activities					
Rental and other property income received		18,163	17,674	9,410	9,071
Interest income received		32	28	58	18
Finance costs		(4,114)	(2,794)	(2,113)	(1,434)
Payments to suppliers		(11,088)	(10,405)	(5,400)	(5,502)
Net cash from operating activities	7	2,993	4,503	1,955	2,153
Cash flows from investing activities					
Receipt of insurance proceeds for restoration works		-	-	2,769	16,920
Payments for capital expenditure		(771)	(442)	(1,388)	(18,549)
Net cash (used in)/from investing activities		(771)	(442)	1,381	(1,629)
Cash flows from financing activities					
Gross proceeds from borrowings		1,300	400	700	-
Issue of stapled units, net of costs		-	19,485	-	23,219
Payment of redemption units and redemption costs		-	(18,944)	-	(22,548)
Acquisition of non-controlling interest		-	-	(8)	-
Net receipts from/(payments to) other members of the stapled group		64	(952)	(268)	838
Distributions paid		(3,699)	(4,724)	(1,948)	(2,565)
Net cash used in financing activities		(2,335)	(4,735)	(1,524)	(1,056)
Net (decrease)/increase in cash and cash equivalents		(113)	(674)	1,812	(532)
Cash and cash equivalents at the beginning of the financial year		2,781	3,455	1,251	1,783
Cash and cash equivalents at the end of the financial year	6	2,668	2,781	3,063	1,251

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2024

1. General information

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III are unlisted managed investment schemes registered and domiciled in Australia.

The financial statements comprise:

- Fort Street Real Estate Capital Fund II and its subsidiaries (**FSREC Fund II**), and
- Fort Street Real Estate Capital Fund III and its subsidiaries (**FSREC Fund III**).

FSREC Fund II and FSREC Fund III are stapled together with Fort Street Real Estate Capital Fund I to form FSREC Property Fund (**the Fund**). The principal activity of FSREC Fund II and FSREC Fund III is to invest in Australian commercial properties.

2. Working capital

As at 30 June 2024, FSREC Fund II's and FSREC Fund III's consolidated statements of financial position reflect:

- deficiencies in net current assets of \$95,325,961 for FSREC Fund II and \$36,740,087 for FSREC Fund III (30 June 2023: deficiency in net current assets of \$20,067,958 for FSREC Fund II and positive net current assets of \$1,859,790 for FSREC Fund III);
- positive net assets of \$93,474,039 for FSREC Fund II and \$118,442,381 for FSREC Fund III (30 June 2023: \$95,603,212 for FSREC Fund II and \$119,432,271 for FSREC Fund III); and
- cash and cash equivalents of \$2,667,559 for FSREC Fund II and \$3,063,283 for FSREC Fund III (30 June 2023: \$2,781,196 for FSREC Fund II and \$1,251,021 for FSREC Fund III).

The deficiencies are primarily due to the classification of borrowings totalling \$75,313,148 and \$38,379,229 as current liabilities of FSREC Fund II and FSREC Fund III at 30 June 2024, respectively, as the loan facility is due to expire on 19 April 2025. The directors are confident based on the Fund's discussions to date with its financiers that the facility will be renewed or refinanced within the expiration period.

The deficiency in net current assets in FSREC Fund II is also due to amounts payable by FSREC Fund II to FSREC Fund III totalling \$19,689,739 classified as current liabilities. The Responsible Entity of FSREC Fund III has confirmed in writing that it will not demand repayment from FSREC Fund II if it would prevent FSREC Fund II from meeting its debts as they fall due.

In addition, the cashflow forecasts for FSREC Fund II and FSREC Fund III support the directors' opinion that FSREC Fund II and FSREC Fund III's working capital positions will remain positive for at least the next twelve months from the date of signing the consolidated financial statements.

Accordingly, the consolidated financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

3. Finance expense

	FSREC Fund II Year ended		FSREC Fund III Year ended	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Recognised directly in profit or loss				
Interest expense on financial liabilities measured at amortised cost	3,706	2,622	1,904	1,344
Other finance costs - including facility line fees and amortisation of loan establishment costs	733	704	550	509
Finance expense recognised directly in profit or loss	4,439	3,326	2,454	1,853

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
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4. Other expenses

	FSREC Fund II Year ended		FSREC Fund III Year ended	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Legal and compliance costs	5	120	4	109
Other operating expenses	75	129	49	75
Total other expenses	80	249	53	184

5. Earnings per unit

	FSREC Fund II Year ended		FSREC Fund III Year ended	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) for the year	1,743	(921)	936	1,998
Non-controlling interest	-	-	-	-
Profit/(loss) attributable to the unitholders	1,743	(921)	936	1,998

	FSREC Fund II Year ended		FSREC Fund III Year ended	
	Number	Number	Number	Number
Weighted average number of units used in calculating basic earnings per unit*	246,872,662	246,874,772	246,872,662	246,874,772
Weighted average number of units used in calculating diluted earnings per unit*	246,872,662	246,874,772	246,872,662	246,874,772
	Cents	Cents	Cents	Cents
Basic earnings/(loss) per unit	0.71	(0.37)	0.38	0.81
Diluted earnings/(loss) per unit	0.71	(0.37)	0.38	0.81

*The weighted average number of stapled securities used by the Fund in calculating its basic and diluted earnings per stapled securities is 246,872,662 (30 June 2023: 246,874,772). Each stapled security of the Fund represents one unit in FSREC Fund I, one unit in FSREC Fund II and one unit in FSREC Fund III.

6. Cash and cash equivalents

	FSREC Fund II As at		FSREC Fund III As at	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Cash at bank	2,668	2,781	3,063	1,251

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
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6. Cash and cash equivalents (continued)

a) Reconciliation to statement of cash flows

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the year as follows:

	FSREC Fund II		FSREC Fund III	
	As at		As at	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Balance per above	2,668	2,781	3,063	1,251
Balance per statement of cash flows	2,668	2,781	3,063	1,251

As at 30 June 2024, FSREC Fund II and FSREC Fund III had access to an undrawn committed borrowing facility of the Fund amounting to \$37,484,000 (30 June 2023: \$40,384,000). Details of the borrowing facility are set out in Note 11.

7. Cash flow information

a) Reconciliation of profit/(loss) to net cash from operating activities

	FSREC Fund II		FSREC Fund III	
	Year ended		Year ended	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) for the year	1,743	(921)	936	1,998
Adjustments for:				
Fair value movement of investment properties	1,883	4,819	750	359
Tenant incentives, rental straight-lining and other adjustments	(528)	324	(218)	(427)
Amortisation of borrowing costs	184	159	269	230
Change in operating assets and liabilities:				
Decrease/(increase) in receivables	89	(142)	378	(199)
Increase in prepayments	(31)	(27)	(6)	(10)
(Decrease)/increase in payables	(347)	291	(154)	202
Net cash from operating activities	2,993	4,503	1,955	2,153

b) Net debt reconciliation

	FSREC Fund II		FSREC Fund III	
	Year ended		Year ended	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Reconciliation of net debt movements				
Secured bank loan balance at the beginning of the year	73,829	73,270	37,410	37,180
Changes from financing cash flows:				
Gross proceeds from borrowings	1,300	400	700	-
Non-cash changes:				
Amortisation of borrowing costs	184	159	269	230
Secured bank loan balance at the end of the year	75,313	73,829	38,379	37,410

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
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8. Trade and other receivables

	FSREC Fund II		FSREC Fund III	
	As at		As at	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Rental and outgoing receivables	468	596	61	67
Less: allowance for expected credit losses	(147)	(147)	-	(32)
	<u>321</u>	<u>449</u>	<u>61</u>	<u>35</u>
Accrued rental income	155	116	113	344
Receivable from insurers	-	-	-	2,328
GST receivable	-	-	-	141
Total trade and other receivables	<u>476</u>	<u>565</u>	<u>174</u>	<u>2,848</u>

Rental and outgoing receivables are non-interest bearing and are due in advance on the first day of each month.

Receivable from insurers comprises of capital spent on rectification works to be reimbursed by insurers in relation to Toormina Gardens. Refer to Note 9 for further information on investment properties.

The following table details the risk profile of rental and outgoing receivables based on the Fund's provision matrix.

	As at				
	30 June 2024 ('000)				
FSREC Fund II	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Expected credit losses rate	6%	46%	63%	70%	31%
Rental and outgoing receivables	234	119	35	80	468
Expected credit losses	14	55	22	56	147

	As at				
	30 June 2023 ('000)				
FSREC Fund II	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Expected credit losses rate	1%	1%	33%	82%	25%
Rental and outgoing receivables	297	53	117	129	596
Expected credit losses	2	1	38	106	147

	As at				
	30 June 2024 ('000)				
FSREC Fund III	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Expected credit losses rate	0%	0%	0%	0%	0%
Rental and outgoing receivables	78	16	1	(34)	61
Expected credit losses	-	-	-	-	-

	As at				
	30 June 2023 ('000)				
FSREC Fund III	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Expected credit losses rate	0%	0%	80%	100%	49%
Rental and outgoing receivables	14	19	5	29	67
Expected credit losses	-	-	3	29	32

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
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9. Investment properties

	FSREC Fund II		FSREC Fund III	
	As at		As at	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Disclosed in consolidated statement of financial position as:				
<i>Non-current assets</i>				
Investment properties - at fair value	188,800	189,500	89,000	89,000
<i>Movement in investment properties - at fair value</i>				
Carrying amount of investment properties at beginning of year	189,500	194,000	89,000	88,500
Capital expenditure	655	643	564	432
Rental straight-lining, tenant incentives and other adjustments	528	(324)	186	427
Fair value movement of investment properties	(1,883)	(4,819)	(750)	(359)
Carrying amount of investment properties at end of year	188,800	189,500	89,000	89,000

Fair value

At reporting date, FSREC Fund II has five commercial properties and FSREC Fund III has one commercial property in Australia which are carried at fair value.

The 30 June 2024 fair value amounts were determined by way of independent valuation on all investment properties using a combination of DCF and capitalisation rate methods based on market conditions existing at balance date.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (range 5.63% - 6.25% for FSREC Fund II and 6.75% for FSREC Fund III) applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.50% - 7.00% for FSREC Fund II and 7.50% for FSREC Fund III) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa. If the capitalisation rate adopted at 30 June 2024 were to increase by 0.25%, the portfolio valuation for FSREC Fund II would decrease by \$7.7 million and for FSREC Fund III by \$3.2 million. Conversely, a decrease of 0.25% in the capitalisation rate would result in a portfolio valuation increase of \$8.3 million for FSREC Fund II and \$3.4 million for FSREC Fund III.

Refer to Note 15 for further information on fair value measurement.

Leasing arrangements

Investment properties are leased to tenants under operating leases for a term of generally 20 years for major tenants and five to seven years for all other tenants. Rental income is payable monthly in advance. The minimum lease payments receivable on investment property leases are as follows:

	FSREC Fund II		FSREC Fund III	
	As at		As at	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Minimum lease payments receivable but not recognised in the financial statements:				
Within one year	13,981	15,883	6,289	5,943
One to five years	33,625	39,453	12,148	14,181
More than five years	18,596	13,785	4,889	1,301
	66,202	69,121	23,326	21,425

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
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10. Trade and other payables

	FSREC Fund II		FSREC Fund III	
	As at		As at	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Trade payables	36	105	4	63
Accrued liabilities	1,787	1,871	1,045	1,397
Contract liabilities (deferred income)	381	723	78	318
GST payable	272	240	114	-
Total trade and other payables	2,476	2,939	1,241	1,778

The average credit period for trade payables is generally 30 days. No interest is charged on trade payables from the date of invoice. FSREC Fund II and FSREC Fund III have risk management policies to ensure payables are paid within credit terms.

Refer to Note 16 for further information on financial instruments.

11. Borrowings

	FSREC Fund II		FSREC Fund III	
	As at		As at	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Secured bank loan - net of borrowing costs	75,313	73,829	38,379	37,410

Refer to Note 16 for further information on financial instruments.

Financing arrangements

As at 30 June 2024, the Fund had a \$300 million loan facility (30 June 2023: \$300 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 19 April 2025.

As at 30 June 2024, FSREC Fund II & FSREC Fund III had access to an undrawn committed borrowing facility of the Fund amounting to \$37.5 million (30 June 2023: \$40.4 million).

The average cost of drawn debt is approximately 5.80% for FSREC Fund II and 6.20% for FSREC Fund III (excluding costs relating to undrawn debt) (30 June 2023: 4.53% for FSREC Fund II and 4.20% for FSREC Fund III).

The drawn amount is secured against investment properties held by FSREC Fund II and FSREC Fund III with a carrying value at reporting date of \$188.8 million and \$89.0 million, respectively, and is subject to compliance with specified covenants and other requirements.

There were no defaults or covenant breaches with respect to the loan during the financial year.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
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12. Issued capital

	FSREC Fund II			
	Year ended			
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	Units*	Units*	\$'000	\$'000
Balance at the beginning of the year	246,872,662	246,911,167	85,807	85,266
Issue of units	-	48,045,278	-	19,485
Redemption of units	-	(48,083,783)	-	(18,911)
Redemption costs	-	-	-	(33)
Balance at the end of the year	246,872,662	246,872,662	85,807	85,807

	FSREC Fund III			
	Year ended			
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	Units*	Units*	\$'000	\$'000
Balance at the beginning of the year	246,872,662	246,911,167	131,825	131,154
Issue of units	-	48,045,278	-	23,219
Redemption of units	-	(48,083,783)	-	(22,508)
Redemption costs	-	-	-	(40)
Balance at the end of the year	246,872,662	246,872,662	131,825	131,825

*Total stapled securities of FSREC Property Fund at 30 June 2024 are 246,872,662 (30 June 2023: 246,872,662) with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

Following a withdrawal offer that closed on 8 July 2022, FSREC Fund II and FSREC Fund III each redeemed 48,083,783 units on 20 July 2022, and redemptions of \$18,911,223 and \$22,507,746 were paid by FSREC Fund II and FSREC Fund III, respectively.

On 20 July 2022, 48,045,278 units were issued to ISPT Retail Australia Property Trust (FSREC Fund) by FSREC Fund II and FSREC Fund III for \$19,485,674 and \$23,218,891, respectively.

There has been no movement in issued units in the year.

Capital risk management

FSREC Fund II and FSREC Fund III manage its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of FSREC Fund II and FSREC Fund III consist of issued capital net of issue costs amounting to \$85,807,088 and \$131,824,740, respectively (30 June 2023: \$85,807,088 for FSREC Fund II and \$131,824,740 for FSREC Fund III).

FSREC Fund II and FSREC Fund III are not subject to any externally imposed capital requirements.

The debt to equity ratio at 30 June 2024 was 80.57% for FSREC Fund II and 32.40% for FSREC Fund III (30 June 2023: 77.22% for FSREC Fund II and 31.32% for FSREC Fund III).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2024, the FSREC Fund II gearing ratio of total amount drawn of \$75,415,000 (30 June 2023: \$74,115,000) to the total value of investment properties of \$188,800,000 (30 June 2023: \$189,500,000) was 39.94% (30 June 2023: 39.11%). At 30 June 2024, the FSREC Fund III gearing ratio of total amount drawn of \$38,526,000 (30 June 2023: \$37,826,000) to the total value of investment properties of \$89,000,000 (30 June 2023: \$89,000,000) was 43.29% (30 June 2023: 42.50%).

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
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13. Non-controlling interest

	FSREC Fund II		FSREC Fund III	
	Year ended		Year ended	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$'000	\$'000	\$'000	\$'000
Issued capital	-	-	-	25
Retained profits	-	-	-	(17)
Total non-controlling interest	-	-	-	8

During the year, FSREC Fund III acquired the non-controlling interest of 0.02% in Australian Property Opportunities Trust III. As at 30 June 2024, there was no non-controlling interest in FSREC Fund III (30 June 2023: 0.02%).

14. Distributions

Distributions declared during the financial year were as follows:

	Year ended		Year ended	
	30 June 2024	30 June 2024	30 June 2023	30 June 2023
	\$'000	CPU	\$'000	CPU
FSREC Fund II				
For the quarter ended 30 September	887	0.36	1,055	0.43
For the quarter ended 31 December	921	0.37	1,091	0.44
For the quarter ended 31 March	1,066	0.43	1,020	0.41
For the quarter ended 30 June	998	0.40	819	0.33
Total distributions	3,872	1.56	3,985	1.61
	Year ended		Year ended	
	30 June 2024	30 June 2024	30 June 2023	30 June 2023
	\$'000	CPU	\$'000	CPU
FSREC Fund III				
For the quarter ended 30 September	612	0.25	878	0.36
For the quarter ended 31 December	455	0.18	347	0.14
For the quarter ended 31 March	434	0.18	686	0.28
For the quarter ended 30 June	417	0.17	447	0.18
Total distributions	1,918	0.78	2,358	0.96

15. Fair value measurement

Fair value of FSREC Fund II's and FSREC Fund III's assets and liabilities that are measured at fair value on a recurring basis

FSREC Fund II and FSREC Fund III measure fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

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

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
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15. Fair value measurement (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
FSREC Fund II - As at 30 June 2024				
<i>Assets</i>				
Investment properties	-	-	188,800	188,800
Total assets	-	-	188,800	188,800
FSREC Fund II - As at 30 June 2023				
<i>Assets</i>				
Investment properties	-	-	189,500	189,500
Total assets	-	-	189,500	189,500
FSREC Fund III - As at 30 June 2024				
<i>Assets</i>				
Investment property	-	-	89,000	89,000
Total assets	-	-	89,000	89,000
FSREC Fund III - As at 30 June 2023				
<i>Assets</i>				
Investment property	-	-	89,000	89,000
Total assets	-	-	89,000	89,000

FSREC Fund II and FSREC Fund III recognise transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial year.

Fair value of the FSREC Fund II's and FSREC Fund III's assets and liabilities that are not measured at fair value on a recurring basis

The fair value of assets and liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

16. Financial instruments

FSREC Fund II and FSREC Fund III are exposed to the following risks from its use of financial instruments:

- market risk (interest rate risk and real estate risk)
- credit risk
- liquidity risk

Market risk

Market risk is the risk of changes in market prices, such as interest rates, will affect FSREC Fund II's and FSREC Fund III's income or the value of their financial instruments. FSREC Fund II and FSREC Fund III have entered into derivative financial instruments to manage their exposure to interest rate risk in respect of the borrowings.

Interest rate risk

Interest rate risk is the risk that cash flows associated with financial instruments will fluctuate due to changes in market interest rates. FSREC Fund II's and FSREC Fund III's exposure to interest rate risk arises from their long-term floating rate borrowings and cash at bank.

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16. Financial instruments (continued)

	As at 30 June 2024		As at 30 June 2023	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
FSREC Fund II				
Cash and cash equivalents	2.05%	2,668	2.31%	2,781
Exposed debt not covered by swap instruments	4.93%	(75,415)	3.54%	(74,115)
Net exposure to cash flow interest rate risk		(72,747)		(71,334)

	As at 30 June 2024		As at 30 June 2023	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
FSREC Fund III				
Cash and cash equivalents	3.47%	3,063	1.48%	1,251
Exposed debt not covered by swap instruments	4.93%	(38,526)	3.54%	(37,826)
Net exposure to cash flow interest rate risk		(35,463)		(36,575)

Sensitivity analysis

The following sensitivity analysis shows the effect on FSREC Fund II's and FSREC Fund III's profit or loss, and equity and have been determined assuming the variable interest cash balance outstanding at year end was outstanding for the whole year and based on a 25 basis point change in interest rates taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables held constant.

FSREC Fund II - As at 30 June 2024	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit \$'000	Effect on equity \$'000		Effect on profit \$'000	Effect on equity \$'000
Cash and cash equivalents	25	3	3	(25)	(3)	(3)
Exposed debt not covered by swap instruments	25	(189)	(189)	(25)	189	189
		<u>(186)</u>	<u>(186)</u>		<u>186</u>	<u>186</u>

FSREC Fund II - As at 30 June 2023	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit \$'000	Effect on equity \$'000		Effect on profit \$'000	Effect on equity \$'000
Cash and cash equivalents	25	7	7	(25)	(7)	(7)
Exposed debt not covered by swap instruments	25	(185)	(185)	(25)	185	185
		<u>(178)</u>	<u>(178)</u>		<u>178</u>	<u>178</u>

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
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16. Financial instruments (continued)

FSREC Fund III - As at 30 June 2024	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit \$'000	Effect on equity \$'000		Effect on profit \$'000	Effect on equity \$'000
Cash and cash equivalents	25	6	6	(25)	(6)	(6)
Exposed debt not covered by swap instruments	25	(96)	(96)	(25)	96	96
		(90)	(90)		90	90
FSREC Fund III - As at 30 June 2023	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit \$'000	Effect on equity \$'000		Effect on profit \$'000	Effect on equity \$'000
Cash and cash equivalents	25	3	3	(25)	(3)	(3)
Exposed debt not covered by swap instruments	25	(95)	(95)	(25)	95	95
		(92)	(92)		92	92

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. FSREC Fund II and FSREC Fund III are exposed to credit risk from its operating activities (primarily trade receivables) and from their financing activities, including deposits with banks and financial institutions and other financial instruments.

	FSREC Fund II		FSREC Fund III	
	As at 30 June 2024 \$'000	As at 30 June 2023 \$'000	As at 30 June 2024 \$'000	As at 30 June 2023 \$'000
Summary of exposure				
Cash and cash equivalents	2,668	2,781	3,063	1,251
Trade and other receivables	476	565	174	2,848
Receivable from other members of the stapled group	-	-	66,182	65,982
	3,144	3,346	69,419	70,081

Cash and cash equivalents

FSREC Fund II and FSREC Fund III manage credit risk on cash and cash equivalents by ensuring deposits are made with reputable financial institutions with investment grade credit ratings.

Trade and other receivables

Credit risk is managed by requiring tenants to pay rentals in advance and through the provision of rental security deposits and guarantees. The credit quality of the tenant is assessed at the time of entering into a lease agreement and review on tenants arrears is performed regularly. No interest is charged from the date of the invoice. A loss allowance of \$146,730 for FSREC Fund II and nil for FSREC Fund III (30 June 2023: \$147,107 for FSREC Fund II and \$31,612 for FSREC Fund III) have been recognised in respect of outstanding amounts at balance date.

Receivable from other members of the stapled group

Amounts are receivable from FSREC Fund I and FSREC Fund II. The Fund, which includes FSREC Fund II and FSREC Fund III, has long-term finance facilities available for drawdown totalling \$37,484,000 as at 30 June 2024. Refer to Note 12 for further information.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2024

16. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that FSREC Fund II and FSREC Fund III will encounter difficulty in meeting their financial obligations as they fall due.

Financing arrangements

FSREC Fund II's and FSREC Fund III's approach to managing liquidity is to ensure, as far as possible, that they will always have sufficient liquidity (including undrawn borrowing facilities) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to FSREC Fund II's and FSREC Fund III's reputation. The cash flow forecasts are regularly updated and reviewed to assist in managing FSREC Fund II's and FSREC Fund III's liquidity.

FSREC Fund II and FSREC Fund III had \$37.5 million available to be borrowed from the Fund's facility.

The following is the contractual maturity of financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which FSREC Fund II and FSREC Fund III can be required to pay. The table includes both interest and principal cash flows.

	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
FSREC Fund II - As at 30 June 2024				
Non-derivative financial liabilities				
Trade payables	36	-	-	36
Accrued liabilities	1,787	-	-	1,787
GST payable	272	-	-	272
Distributions payable	998	-	-	998
Borrowings	78,498	-	-	78,498
Payable to other members of the stapled group	19,990	-	-	19,990
Total non-derivatives	101,581	-	-	101,581
	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
FSREC Fund II - As at 30 June 2023				
Non-derivative financial liabilities				
Trade payables	105	-	-	105
Accrued liabilities	1,871	-	-	1,871
GST payable	240	-	-	240
Distributions payable	825	-	-	825
Borrowings	3,443	77,418	-	80,861
Payable to other members of the stapled group	19,926	-	-	19,926
Total non-derivatives	26,410	77,418	-	103,828

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2024

16. Financial instruments (continued)

	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
FSREC Fund III - As at 30 June 2024				
Non-derivative financial liabilities				
Trade payables	4	-	-	4
Accrued liabilities	1,045	-	-	1,045
GST payable	114	-	-	114
Other liabilities	-	-	-	-
Distributions payable	417	-	-	417
Borrowings	40,101	-	-	40,101
Total non-derivatives	41,681	-	-	41,681

	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
FSREC Fund III - As at 30 June 2023				
Non-derivative financial liabilities				
Trade payables	63	-	-	63
Accrued liabilities	1,397	-	-	1,397
Distributions payable	447	-	-	447
Borrowings	1,757	39,559	-	41,316
Payable to other members of the stapled group	68	-	-	68
Total non-derivatives	3,732	39,559	-	43,291

17. Controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 2 to the FSREC Property Fund financial statements:

Name	Entity Type	Principal place of business/ Country of incorporation/ Tax residency	Ownership interest Year ended	
			30 June 2024 %	30 June 2023 %
Controlled entities of FSREC Fund II				
Australian Property Opportunities Trust II	Trust	Australia	100.00%	100.00%
APOT II No. 1	Trust	Australia	100.00%	100.00%
Controlled entities of FSREC Fund III				
Australian Property Opportunities Trust III	Trust	Australia	100.00%	99.98%
APOT III No. 1 Trust	Trust	Australia	100.00%	100.00%

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2024

18. Parent entity information

During the year ended 30 June 2024, the parent entities of FSREC Fund II and FSREC Fund III were Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital III, respectively.

	FSREC Fund II Year ended		FSREC Fund III Year ended	
	30 June 2024 \$'000	30 June 2023 \$'000	30 June 2024 \$'000	30 June 2023 \$'000
<i>Summarised statement of financial position</i>				
Current assets	1,164	1,034	593	425
Non-current assets	97,085	97,085	118,353	118,445
Total assets	98,249	98,119	118,946	118,870
Current liabilities	20,742	20,701	448	491
Total liabilities	20,742	20,701	448	491
Net assets	77,507	77,418	118,498	118,379
<i>Summarised statement of profit or loss and other comprehensive income</i>				
Revenue	4,154	5,104	2,155	1,304
Expenses	(193)	(535)	(118)	(350)
Profit	3,961	4,569	2,037	954
Other comprehensive income	-	-	-	-
Total comprehensive income	3,961	4,569	2,037	954
<i>Unitholders' equity in the parent entity</i>				
Issued capital	85,807	85,807	131,825	131,825
(Accumulated losses)/retained profits	(8,300)	(8,389)	(13,327)	(13,446)
Total equity	77,507	77,418	118,498	118,379

As at 30 June 2024, the parent entity of FSREC Fund II reflects a deficiency in net current assets of \$19,578,415. The deficiency is primarily attributable to amounts payable by FSREC Fund II to FSREC Fund III of \$19,689,739 classified as current liabilities. Refer to Note 2 for further information.

The parent entities do not have any contingent liabilities, contractual commitments and have not entered into any guarantees during or since the end of the financial year (30 June 2023: nil).

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2024

19. Related party transactions

a) Responsible Entity fees and other transactions

The transactions during the year and amounts payable as at year end between FSREC Fund II or FSREC Fund III and the related parties were as follows:

	FSREC Fund II			
	Year ended			
	30 June 2024	30 June 2024	30 June 2023	30 June 2023
	Transactions	Payable at	Transactions	Payable at
	\$	year-end	\$	year-end
		\$		\$
Former Responsible Entity fees*	-	-	234,905	-
Responsible Entity fees*	37,999	10,000	21,555	10,181
Trustee fees*	14,453	3,707	7,364	3,490
Investment Manager fees**	1,039,731	-	1,064,867	87,041
Property Manager fees**	512,337	45,008	473,185	44,508
Development Manager fees	13,088	-	7,704	88
Leasing Services fees	66,675	-	217,245	-

	FSREC Fund III			
	Year ended			
	30 June 2024	30 June 2024	30 June 2023	30 June 2023
	Transactions	Payable at	Transactions	Payable at
	\$	year-end	\$	year-end
		\$		\$
Former Responsible Entity fees*	-	-	110,347	-
Responsible Entity fees*	19,550	5,000	10,195	4,817
Trustee fees*	14,452	3,707	7,364	3,490
Investment Manager fees**	499,964	-	500,400	41,038
Property Manager fees**	251,828	20,409	258,305	26,609
Development Manager fees***	-	-	550	425
Leasing Services fees***	45,301	-	119,493	-

*Responsible Entity and Trustee fees for the year ended 30 June 2024 totalling \$52,452 for FSREC Fund II and \$34,002 for FSREC Fund III (30 June 2023: \$263,824 for FSREC Fund II and \$127,906 for FSREC Fund III) are included in the statement of profit or loss and other comprehensive income as Responsible Entity and trustee fees.

**Investment Manager fees and Property Manager fees for the year ended 30 June 2024 totalling \$1,552,068 for FSREC Fund II and \$751,792 for FSREC Fund III (30 June 2023: \$1,538,052 for FSREC Fund II and \$758,705 for FSREC Fund III) are included in the statement of profit or loss and other comprehensive income as Management fees.

***Development manager and Leasing Services fees for the year ended 30 June 2024 totalling \$79,763 for FSREC Fund II and \$45,301 for FSREC Fund III (30 June 2023: \$224,918 for FSREC Fund II and \$120,043 for FSREC Fund III) are capitalised as investment properties.

Refer to Note 22 to the financial statements of FSREC Property Fund for further information regarding the nature and fee basis of related party transactions.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2024

19. Related party transactions (continued)

b) Related party unit holdings in FSREC Fund II and FSREC Fund III

As at 30 June 2024, Fort Street Real Estate Capital Pty Ltd held 873,842 units in FSREC Fund II and FSREC Fund III (30 June 2023: 873,842 units in FSREC Fund II and FSREC Fund III) representing 0.35% interest and a fair value of investment of \$1,572,916 in the FSREC Fund II and FSREC Fund III (30 June 2023: 0.35% and \$1,572,916).

Distributions paid or payable by FSREC Fund II and FSREC Fund III to Fort Street Real Estate Capital Pty Ltd in the year ended 30 June 2024 was \$13,706 from FSREC Fund II and \$6,787 from FSREC Fund III (30 June 2023: \$14,104 from FSREC Fund II and \$8,347 from FSREC Fund III).

c) Investments

FSREC Fund II and FSREC Fund III did not hold any investments in Equity Trustees Limited or its related parties during the year (30 June 2023: nil).

20. Remuneration of auditor

During the financial year the following fees were paid or payable for services provided by the auditors of FSREC Fund II and FSREC Fund III:

	FSREC Fund II Year ended		FSREC Fund III Year ended	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
	\$	\$	\$	\$
Deloitte Touche Tohmatsu				
Audit services				
Audit and review of the financial statements	86,572	82,246	42,565	40,428
Taxation services				
Tax compliance services	25,435	22,100	23,765	22,100
Total remuneration of Deloitte Touche Tohmatsu	112,007	104,346	66,330	62,528

21. Capital commitments

As at 30 June 2024, FSREC Fund II had committed \$692,500 and FSREC Fund III \$220,000 in lease incentives arising from lease agreements (30 June 2023: \$2,118,000 for FSREC Fund II and \$430,000 for FSREC Fund III). There were no other capital commitments in respect of improvements to the existing properties.

22. Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2024 and 30 June 2023.

23. Events after the reporting period

No significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2024 or on the results and cash flows of the Fund for the year ended on that date.

SIGNED REPORTS



FSREC Property Fund
Directors' declaration
30 June 2024

In the opinion of the directors of the Responsible Entity:

a. The financial statements and notes set out on pages 8 to 60 are in accordance with the *Corporations Act 2001*, 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 Fund's financial position as at 30 June 2024 and its performance for the financial year ended on that date.

b. There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and

c. Note 2 confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.



Andrew P Godfrey
Director

Melbourne
11 September 2024

Independent Auditor's Report to the Stapled Security Holders of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

Opinion

We have audited the financial reports of Fort Street Real Estate Capital Fund I ('FSREC Fund I') and its subsidiaries (together 'FSREC Property Fund' or the 'Group'), Fort Street Real Estate Capital Fund II and its subsidiaries ('FSREC Fund II') and Fort Street Real Estate Capital Fund III and its subsidiaries ('FSREC Fund III'), which comprises the consolidated statement of financial position as at 30 June 2024, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information and the directors' declaration.

In our opinion, the accompanying financial reports of FSREC Property Fund, FSREC Fund II and FSREC Fund III are in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 30 June 2024 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial reports 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 Equity Trustees Limited, the Responsible Entity of FSREC Fund I, FSREC Fund II and FSREC Fund III (the 'directors'), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Funds from Operations and the Directors' report for the year ended 30 June 2024 but does not include the financial reports and our auditor's report thereon.

Other Information (continued)

Our opinion on the financial reports 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 reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Reports

The directors are responsible:

- for the preparation of the financial reports in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of FSREC Property Fund, FSREC Fund II and FSREC Fund III in accordance with Australian Accounting Standards; and
- for such internal control as the directors determine is necessary to enable the preparation of the financial reports in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of FSREC Property Fund, FSREC Fund II and FSREC Fund III, and are free from material misstatement, whether due to fraud or error.

In preparing the financial reports, the directors are responsible for assessing the ability of FSREC Property Fund, FSREC Fund II and FSREC Fund III 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Reports

Our objectives are to obtain reasonable assurance about whether the financial reports as a whole are 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 the financial reports.

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 reports, 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's Responsibilities for the Audit of the Financial Reports (continued)

- 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III'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 reports 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III to cease to continue as going concerns.
- Evaluate the overall presentation, structure and content of the financial reports, including the disclosures, and whether the financial reports represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within FSREC Property Fund, FSREC Fund II and FSREC Fund III to express an opinion on the financial reports. We are responsible for the direction, supervision and performance of FSREC Property Fund, FSREC Fund II and FSREC Fund III's audit. We remain solely responsible for our audit opinion.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Weng W Ching

Partner

Chartered Accountants

Sydney, 11 September 2024

RESPONSIBLE ENTITY

Equity Trustees Limited
(ABN 46 004 031 298) (AFSL 240975)

