

L1 Capital UK Residential Property Fund III

ARSN 632 369 478

Annual report

For the year ended 30 June 2024

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This annual report covers L1 Capital UK Residential Property Fund III as an individual entity.

The Responsible Entity of L1 Capital UK Residential Property Fund III 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.

Directors' report

The Directors of Equity Trustees Limited, the Responsible Entity of L1 Capital UK Residential Property Fund III (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2024.

Principal activities

The Fund invests in residential property in the United Kingdom and into L1 Capital UK Residential Property Fund IV through its investment in the L1 UK Property Trust 3A (the "Sub-Trust") in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

| Service | Provider |
|--------------------|--|
| Responsible Entity | Equity Trustees Limited |
| Investment Manager | L1 UK Property Investments Pty Ltd |
| Administrator | Apex Fund Services (Australia) Pty Ltd |
| Custodians | L1 UK Property Nominee 3A1 Ltd L1 UK Property Nominee 3A2 Ltd |
| Statutory Auditor | Ernst & Young |

Directors

The following persons held office as directors of Equity Trustees Limited during or since the end of the 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 | (appointment 1 May 2024) |

Review and results of operations

During the year, the Fund continued to invest its funds in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution. The Fund's strategy is to invest either directly or through a sub-trust in UK residential property in Tier 1 UK cities (excluding London) that deliver high rental yields.

The Fund's performance was 3.03% (2023: 8.93%) (net of fees) for the year ended 30 June 2024. The Fund does not operate against a benchmark. The Fund's performance is based on the net asset value (before distributions) movement of the Fund which is denominated in Pound sterling.

Directors' report (continued)

Review and results of operations (continued)

The performance of the Fund, as represented by the results of its operations, was as follows:

| | Year ended | |
|--|-------------------------|-------------------------|
| | 30 June 2024 | 30 June 2023 |
| Profit/(loss) for the year (£'000) | 1,181 | 3,199 |
| Distributions paid and payable (£'000) | 990 | - |
| Distributions (pence per unit) | 1.5938 | - |

Significant changes in the state of affairs

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

Philip D Gentry resigned as 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:

- i. the operations of the Fund in future financial years; or
- ii. the results of those operations in future financial years; or
- iii. 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 Responsible Entity has not, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify the auditor of the Fund against a liability incurred as auditor.

Directors' report (continued)

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 year are disclosed in Note 18 to the financial statements.

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

No interests in the Fund were held by the Responsible Entity or its associates as at the end of the financial year.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the 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 financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand Pound sterling

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

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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.



Andrew P Godfrey
Director

Melbourne
30 September 2024



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Auditor's Independence Declaration to the Directors of Equity Trustees Limited as Responsible Entity for L1 Capital UK Residential Property Fund III

As lead auditor for the audit of the financial report of L1 Capital UK Residential Property Fund III for the financial year ended 30 June 2024, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- b) no contraventions of any applicable code of professional conduct in relation to the audit; and
- c) no non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

Ernst & Young

Emma Reekie
Partner
Melbourne
30 September 2024

Statement of comprehensive income

| | | Year ended | |
|--|-------|--------------------------|--------------------------|
| | Note | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Income | | | |
| Distribution income | | 983 | - |
| Interest income from financial assets at amortised cost | | - | 13 |
| Net gains/(losses) on financial asset at fair value through profit or loss | | 111 | 3,449 |
| Net change in fair value of investment properties | 6 | (100) | 883 |
| Rental income | | 700 | 826 |
| Net foreign exchange gain/(loss) | | 15 | 2 |
| Other income | 14 | 44 | - |
| Total income/(loss) | | 1,753 | 5,173 |
| Expenses | | | |
| Interest expense | | 284 | 208 |
| Management fees and costs | | 401 | 374 |
| Performance fees accrued/(reversed) | 18(g) | (517) | 517 |
| Professional fees | | 29 | 46 |
| Borrowing costs | | 123 | 56 |
| Property related expenses and outgoing | | 288 | 395 |
| Income tax expense/(benefit) | 15 | (25) | 219 |
| Foreign tax expenses/(refund) | | (16) | 16 |
| Other expenses | | 5 | 143 |
| Total expenses | | 572 | 1,974 |
| Profit/(loss) for the year | | 1,181 | 3,199 |
| Other comprehensive income | | - | - |
| Total comprehensive income/(loss) for the year | | 1,181 | 3,199 |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

| | | As at | |
|---|---------|---------------|---------------|
| | 30 June | | 30 June |
| | 2024 | | 2023 |
| | £'000 | | £'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 10 | 179 | 161 |
| Prepayments and other receivables | 12 | 69 | 79 |
| Distributions receivable | | 983 | - |
| Due from related parties | 18(f) | - | 77 |
| Total current assets | | <u>1,231</u> | <u>317</u> |
| Non-current assets | | | |
| Financial assets at fair value through profit or loss | 5 | 35,016 | 34,905 |
| Investment properties | 6 | 8,708 | 8,808 |
| Total non-current assets | | <u>43,724</u> | <u>43,713</u> |
| Total assets | | <u>44,955</u> | <u>44,030</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | 13 | 398 | 867 |
| Borrowings | 16 | - | (5) |
| Due to related parties | 18(f) | 1,156 | - |
| Distributions payable | | 496 | - |
| Total current liabilities | | <u>2,050</u> | <u>862</u> |
| Non-current liabilities | | | |
| Performance fees payable | 18(g) | - | 517 |
| Deferred tax liabilities | 15 | 218 | 243 |
| Borrowings | 16 | 3,482 | 3,394 |
| Total non-current liabilities | | <u>3,700</u> | <u>4,154</u> |
| Total liabilities | | <u>5,750</u> | <u>5,016</u> |
| Net assets attributable to unit holders - equity | 8 | <u>39,205</u> | <u>39,014</u> |

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

Statement of changes in equity

| | | Year ended | |
|--|------|-----------------|-----------------|
| | | 30 June 2024 | 30 June 2023 |
| | Note | £'000 | £'000 |
| Total equity at the beginning of the financial year | | 39,014 | 35,815 |
| Comprehensive income for the financial year | | | |
| Profit/(loss) for the year | | 1,181 | 3,199 |
| Other comprehensive income | | - | - |
| Total comprehensive income/(loss) | | 1,181 | 3,199 |
| Transactions with unit holders | | | |
| Distributions to unit holders | | (990) | - |
| Total transactions with owner in their capacity as owners | | (990) | - |
| Total equity at the end of the financial year | 8 | 39,205 | 39,014 |

The above statement of changes in equity should be read in conjunction with the accompanying notes with reference to Notes 2 and 8.

Statement of cash flows

| | | Year ended | |
|---|------|-----------------|-----------------|
| | | 30 June 2024 | 30 June 2023 |
| | Note | £'000 | £'000 |
| Cash flows from operating activities | | | |
| Interest income received from financial assets at amortised cost | | - | 13 |
| Rental income received | | 713 | 697 |
| Other income received | | 54 | - |
| Interest expense paid | | (284) | (208) |
| Management fees and costs paid | | (859) | (52) |
| Property related expenses and outgoings paid | | (288) | (542) |
| Income tax paid | | - | (254) |
| Other expenses paid | | (42) | (44) |
| Net cash inflow/(outflow) from operating activities | 11 | (706) | (390) |
| Cash flows from financing activities | | | |
| Advances from/(to) related parties | | 1,233 | 463 |
| Net proceeds from/(repayment of) borrowings | | (30) | (74) |
| Distributions paid to unit holders | | (494) | - |
| Net cash inflow/(outflow) from financing activities | | 709 | 389 |
| Net increase/(decrease) in cash and cash equivalents | | 3 | (1) |
| Cash and cash equivalents at the beginning of the year | | 161 | 160 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | | 15 | 2 |
| Cash and cash equivalents at the end of the year | 10 | 179 | 161 |

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

Notes to the financial statements

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1 General information

These financial statements cover L1 Capital UK Residential Property Fund III (the “Fund”) as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 19 March 2019 and registered with the Australian Securities and Investments Commission on 1 April 2019. The Fund commenced operations on 19 August 2019 and will terminate in accordance with the provisions of the Fund’s Constitution or by Law.

The Responsible Entity of the Fund 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 financial statements are presented in the Pound sterling (GBP) currency unless otherwise noted.

The Fund invests in residential property in the United Kingdom and into L1 Capital UK Residential Property Fund IV through its investment in the L1 UK Property Trust 3A (the “Sub-Trust”) in accordance with the Product Disclosure Statement and the provisions of the Fund’s Constitution.

The 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 financial statements.

2 Summary of material accounting policies

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

a. Basis of preparation

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

The financial statements are prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The statement of financial position is presented on a current and non-current basis. All balances are expected to be recovered or settled within 12 months, except for financial assets at fair value through profit or loss, investment properties, borrowings, deferred tax liabilities, performance fees payable.

The Responsible Entity is satisfied that the Fund has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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. Basis of consolidation

The Fund holds its investments in property directly and does not control any subsidiaries. Accordingly, the Fund does not prepare consolidated financial reports. The Fund has an investment in Sub-Trust which is measured at fair value through profit or loss.

iii. 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 134 & AASB Practice Statement 2].

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.

2 Summary of material accounting policies (continued)

a. Basis of preparation (continued)

iii. *New and amended standards adopted by the Fund (continued)*

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.

iv. *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning 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.

b. Financial instruments

i. *Classification*

The Fund classifies its investment assets based on its business model for managing those financial assets. The Fund's investment asset is its investment in the Sub-Trust. The Sub-Trust is managed and its performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy as outlined in the Product Disclosure Statement. The Fund's policy is for the Investment Manager to evaluate the information about these financial assets on a fair value basis together with other related financial information.

The Fund's investments are classified at fair value through profit or loss. They comprise:

- *Financial instruments at fair value through profit or loss upon initial recognition*

These include financial assets and liabilities that are not held for trading purposes and which may be sold. These are investments in the Sub-Trust.

- *Financial assets to be measured at fair value through profit or loss*

Financial assets and liabilities at fair value through profit or loss at inception are those managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy as outlined in the Product Disclosure Statement. The Fund's policy is for the Investment Manager to evaluate information about these financial instruments on a fair value basis together with other related financial information.

- *Financial assets to be measured at amortised cost*

For cash and cash equivalents, receivables, and due from related parties, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

ii. *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.

2 Summary of material accounting policies (continued)

b. Financial instruments (continued)

ii. Recognition and derecognition (continued)

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 comprehensive income.

iii. Measurement

- *Financial instruments at fair value through profit or loss*

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of all financial assets and liabilities are measured at fair value through profit or loss. Gains and losses arising from changes in their value are presented in the statement of comprehensive income in the year in which they arise.

For further details on how the fair value of financial instruments is determined see Note 4 to the financial statements.

- *Financial instruments at amortised costs*

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured according to their classification using the effective interest rate method less any allowance for expected credit losses.

Cash and cash equivalents, receivables and due from related parties are carried at amortised cost.

iv. Impairment

At each reporting date, the Fund shall estimate a loss allowance on each of the financial assets carried at amortised cost (cash and cash equivalents, due from related parties and receivables) at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that the asset is credit impaired. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the net carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The expected credit loss (ECL) approach is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

v. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Fund has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

As at the end of the reporting year, there are no financial assets or liabilities offset or with the right to offset in the statement of financial position.

2 Summary of material accounting policies (continued)

b. Financial instruments (continued)

vi. *Investment entity subsidiaries*

In accordance with the Fund's Product Disclosure Statement dated 22 May 2019, the Fund has been constituted to invest in one or more sub-trusts to hold residential property in the United Kingdom. The Fund currently invests in and controls one sub-trust which is considered to be a subsidiary. The Fund invests in this Sub-Trust for the purpose of capital appreciation and/or earning investment income.

Under AASB 10 *Consolidated Financial Statements*, the Fund is considered an investment entity and is therefore, exempt from preparing consolidated financial statements.

c. Investment properties

Investment properties typically comprise of a broad spectrum of residential property in the UK including apartments, semi-detached houses and student property.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value and are recognised on settlement date, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

The Fund makes estimates and judgements that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Refer to Note 2(p).

Investment properties are derecognised either when they have been disposed of (i.e. at the date a purchaser obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the year of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in AASB 15, *Revenue from contracts with customers*.

Transfers are made from investment property when, and only when, there is a change in use. This is evidenced by an availability and high probability of sale in the investment property's present condition or commencement of development with a view to sale. These properties are reclassified to non-current assets held for sale and are measured at fair value through profit or loss based on offers received or agreed sale amounts.

Investment properties are independently valued using the capitalisation of net income method for determining the fair value. For the Fund's detailed valuation policy, refer to Note 4(d).

The fair value of investment properties recorded in the statement of financial position may include the cost of acquisition, additions, refurbishments, improvements, lease incentives, leasing costs and assets relating to fixed increases in operating lease rentals in future years.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations and other market evidence. The directors determine a property's value within a range of reasonable fair value estimates. Fair value is determined using a long-term investment period. Specific circumstances of the owner are not taken into account. For the Fund's detailed valuation policy, refer to Note 4(d).

Under AASB 140 *Investment Property*, investment properties, including any plant and equipment, are not subject to depreciation. However, depreciation allowances in respect of certain buildings, plant and equipment are currently available to investors for taxation purposes.

2 Summary of material accounting policies (continued)

d. Net assets attributable to unit holders

The Fund is an illiquid close-ended unlisted Australian registered managed investment scheme and is not subject to redemptions and further applications.

The Fund's units are classified as equity as they satisfy the following criteria under AASB 132 *Financial Instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

e. 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.

f. Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i. Rental income

Rental income is earned from the leases of the investment properties in the United Kingdom to third parties. Rental income is recognised in the statement of comprehensive income on a straight line basis in accordance with AASB 16 *Leases*.

ii. Interest income

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

g. Expenses

All expenses are recognised in the statement of comprehensive income on an accruals basis.

i. Management fees and costs

Management fees and costs covers certain ordinary expenses such as Responsible Entity fees, investment management fees, custodian fees, administration and audit fees and other operating expense.

2 Summary of material accounting policies (continued)

g. Expenses (continued)

ii. *Property related expenses*

Property expenses include rates, taxes, repairs and other property outgoings incurred in relation to investment properties. Property expenses are recorded on an accruals basis.

iii. *Borrowing costs*

Borrowing costs include interest and the amortisation of other costs incurred in respect of obtaining finance.

Borrowing costs associated with the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset during the year that is required to complete and prepare the asset for its intended use.

Borrowing costs not associated with qualifying assets are recognised as an expense when incurred. None of the Fund's assets are considered qualifying assets for the capitalisation of finance costs.

Other costs incurred in respect of obtaining finance, including loan establishment fees, are deferred and expensed over the term of the respective loan facility.

iv. *Other expenses*

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

h. Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unit holders. However, the Fund is responsible for preparing and filing a UK tax return as a transparent entity for income tax purposes and as the agent to facilitate tax withholding. Under the UK non-resident capital gains tax regime, the Fund will also be responsible for filing a UK capital gains tax return and paying the relevant UK tax on any gains upon disposal of UK properties which it owns.

The Fund will withhold UK income tax at the applicable tax rate from the amount distributed to the unit holders. The amount of the applicable tax withholding and any taxes due in the UK is recognised as foreign tax expenses/(refund) in the statement of comprehensive income on an accrual basis. The amount of tax withholding and any UK tax paid, where applicable, will be disclosed as Foreign Income Tax Offset (FITO) in the unit holders' annual AMMA tax statement.

For income tax purposes, the Fund has made a functional currency election being the Pound sterling.

UK Capital gains tax payable has been included in the statement of financial position as a deferred tax liability, current tax payable and the expense for the year has been recognized as income tax expense in the statement of comprehensive income.

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted.

A deferred tax liability is recognised when there is a taxable temporary difference between the tax base of an asset or liability and its corresponding carrying amount in the statement of financial position. This arises when the carrying amount of an asset exceeds its tax base.

i. Distributions

The Fund may distribute its distributable income, in accordance with the Fund's Constitution, to unit holders by cash.

2 Summary of material accounting policies (continued)

j. Foreign currency translation

i. 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 Pound sterling which reflects the currency of the economy in which the Fund operates. The Pound sterling is also the Fund's presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the statement of comprehensive income.

The Fund does not isolate that portion of unrealised gains or losses on financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates. Such fluctuations are included within net gains/(losses) on financial instruments at fair value through profit or loss.

k. Receivables

Receivables may include amounts for rent receivable on investment and GST receivables. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables. For information regarding expected credit loss (ECL), refer to Note 2(b)(iv).

l. Payables

Payables include liabilities and accrued expenses owed by the Fund and any distributions declared which are unpaid as at the end of the reporting period.

A separate distribution payable is recognised in the statement of financial position.

m. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year.

n. Applications and redemptions

The Fund is an illiquid close-ended unlisted Australian registered managed investment scheme and is not subject to redemptions and further applications. The Fund, subject to the provisions of the Product Disclosure Statement, may allow transfers of units.

o. Goods and services tax (GST) and stamp duty land tax (SDLT)

The GST incurred on the costs of various services provided to the Fund by third parties such as management, administration and custodian services where applicable, have been passed on to the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%. Hence, fees for these services and any other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Amounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

The Fund incurs SDLT on the acquisition of investment properties. SDLT is chargeable at rates from 0% to 5% depending on the value of each flat purchased in each investment.

2 Summary of material accounting policies (continued)

p. Use of estimates and judgements

- *Estimated fair value of investment properties*

The Fund makes estimates and judgements that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods effected.

A critical assumption made in valuing the Fund's investment properties is the impact of fire safety remediation works. As there were no regulatory orders or notifications issued by UK authorities, caveats or conditions imposed on the titles of the investment properties requiring the Responsible Entity to undertake fire safety remediation works or preventing the Responsible Entity from selling or leasing the properties, it has been assumed that:

- Rent foregone during any fire remediation works voluntarily undertaken by the Investment Manager does not impact the fair value of the investment properties;
- The cost of any fire remediation works voluntarily undertaken by the Investment Manager will be recoverable from developers, warranty insurers and/or the UK Government Building Safety program and does not impact the fair value of the investment properties.

In addition, financial assets at fair value through profit or loss currently held by the Fund are units in the Sub-Trust which has been measured at its audited net asset value. The auditor's report on the financial statements of the Sub-Trust is unmodified for the year ended 30 June 2024.

For more information on how fair value is calculated refer to Note 4 to the financial statements.

q. 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 Pound sterling, unless otherwise indicated.

r. 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 Financial risk management

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates price risk, foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

The objective of risk management is to identify, assess, manage and monitor the risks to which the Fund is exposed, and to ensure the appropriate risk management policies and controls are in place. Risk management policies are reviewed regularly by the Investment Manager to ensure they reflect changes in market conditions.

All investments present a risk of loss of capital. The maximum loss of capital on unit trusts is limited to the fair value of those positions.

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, L1 UK Property Investments Pty Ltd, under an Investment Management Agreement (IMA) approved by the Responsible Entity, containing the investment strategy and guidelines of the Fund, consistent with those stated in the Product Disclosure Statement. L1 UK Property Pty Ltd, a UK registered subsidiary company of the Investment Manager company, is also a party to this agreement and is the UK based specialist property Investment Manager.

3 Financial risk management (continued)

The Fund uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

a. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns to investors.

i. Price risk

The Fund is exposed to price risk on its investment in the Sub-Trust. The Fund has a significant concentration of risk arising from its investment in the Sub-Trust. As at 30 June 2024, the Fund's investment in the Sub-Trust represents 100% of the Fund's financial assets at fair value through profit or loss.

The price risk in the Sub-Trust is managed by L1 UK Property Investments Pty Ltd, the manager of the Sub-Trust. It manages this risk through active management of the underlying property investments and by ensuring that the Sub-Trust holds a diversified portfolio of numerous investments spread over a large geographical area.

The table at Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. This analysis is based on the assumption that the unobservable inputs used in the valuation of the investment properties held by the Sub-Trust move by +/-10% (2023: +/-10%).

ii. Foreign exchange risk

The Fund operates internationally and holds both monetary and non-monetary assets and liabilities denominated in currencies other than the Pound sterling. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The Investment Manager monitors the Fund's currency position on a regular basis.

The table at Note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Pound sterling weakened and strengthened by 10% (2023: +/-10%) against the material foreign currencies to which the Fund is exposed.

The table below summarises the fair value of the Fund's monetary financial assets and liabilities, which are denominated in Australian Dollar (AUD), the Fund's main currency exposure at the end of the reporting year.

| | As at | |
|----------------------------------|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Cash and cash equivalents | 8 | 11 |
| Prepayment and other receivables | 5 | 14 |
| Payables | (40) | (50) |
| Due to related parties | (74) | - |
| Performance fees payable | - | (517) |
| Borrowings | - | 16 |
| Distributions payable | (496) | - |
| Net exposure | (597) | (526) |

3 Financial risk management (continued)

a. Market risk (continued)

iii. Cash flow and fair value interest rate risk

The Fund's interest rate risk is associated with cash and cash equivalents, due to related parties and borrowings. Interest rate risk management is undertaken by maintaining as close to a fully invested position as possible limiting the exposure of the Fund to interest rate risk.

The table below summarises the Fund's exposure to interest rate risk at the end of the reporting period.

| | Floating interest rate £'000 | Fixed interest rate £'000 | Non- interest bearing £'000 | Total £'000 |
|---|---------------------------------------|------------------------------------|--------------------------------------|----------------|
| As at 30 June 2024 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 179 | - | - | 179 |
| Prepayment and other receivables | - | - | 69 | 69 |
| Distributions receivable | - | - | 983 | 983 |
| Financial assets at fair value through profit or loss | - | - | 35,016 | 35,016 |
| Total financial assets | 179 | - | 36,068 | 36,247 |
| Financial liabilities | | | | |
| Borrowings | 3,482 | - | - | 3,482 |
| Payables | - | - | 398 | 398 |
| Due to related parties | 1,156 | - | - | 1,156 |
| Distributions payable | - | - | 496 | 496 |
| Total financial liabilities | 4,638 | - | 894 | 5,532 |
| Net exposure | (4,459) | - | 35,174 | 30,715 |

As at 30 June 2023

| | | | | |
|---|----------------|----------|---------------|---------------|
| Financial assets | | | | |
| Cash and cash equivalents | 161 | - | - | 161 |
| Prepayment and other receivables | - | - | 79 | 79 |
| Due from related parties | 77 | - | - | 77 |
| Financial assets at fair value through profit or loss | - | - | 34,905 | 34,905 |
| Total financial assets | 238 | - | 34,984 | 35,222 |
| Financial liabilities | | | | |
| Borrowings | 3,389 | - | - | 3,389 |
| Payables | - | - | 867 | 867 |
| Performance fees payable | - | - | 517 | 517 |
| Total financial liabilities | 3,389 | - | 1,384 | 4,773 |
| Net exposure | (3,151) | - | 33,600 | 30,449 |

The table at Note 3(b) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unit holders through changes in fair value or changes in future cash flows. The analysis is based on the reasonably possible shift that the interest rates change or by +/- 100 (2023: +/- 100) basis points from the period end rates with all other variables held constant.

3 Financial risk management (continued)

b. Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's profit and net assets attributable to unit holders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in foreign exchange rates, interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

| | Impact on net assets attributable to unit holders | | | | | |
|---------------------------|---|----------------|-----------------------|---------------|--------------------|------------------|
| | Price risk | | Foreign exchange risk | | Interest rate risk | |
| | +10% £'000 | -10% £'000 | +10% £'000 | -10% £'000 | +100bps £'000 | -100bps £'000 |
| As at 30 June 2024 | 3,502 | (3,502) | (60) | 60 | (45) | 45 |
| As at 30 June 2023 | 3,491 | (3,491) | (53) | 53 | (32) | 32 |

c. Credit risk

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's rent receivable in investment properties. The Fund is also exposed to counterparty credit risk on cash and cash equivalents and other receivables.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward-looking information in determining any expected credit loss.

i. Cash and cash equivalents

At 30 June 2024, cash and cash equivalents are held with counterparties with a credit rating of AA- (based on the Standard & Poor's (S&P) indices) or higher and are either callable on demand or due to be settled within 1 week. Management considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

A summary of the credit ratings for the financial institutions used by the Fund are as follows (based on the S&P indices):

| | 30 June 2024 | As at 30 June 2023 |
|---|-----------------|--------------------------|
| Australia and New Zealand Banking Group Limited | AA- | AA- |
| National Australia Bank Limited | AA- | AA- |
| HSBC UK Bank PLC | A+ | A+ |

ii. Rent receivable

Credit risk from rent receivable is actively monitored by the Investment Manager. Rental income receivable 90+ days past due is considered credit impaired and generally provided for an allowance or written-off unless settlement arrangements are in place or availability of information that would suggest otherwise. The Fund expects to collect all other outstanding rents based on ageing, detailed tenant and other historical analysis performed.

As at 30 June 2024, the Fund recognised allowance for expected credit losses on its rent receivable amounting to £Nil (2023: £147,864).

3 Financial risk management (continued)

d. Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

As the Fund is an illiquid close-ended Fund, it is not exposed to liquidity risk on unit holder redemptions. The Fund manages liquidity risk by maintaining sufficient cash balances to meet its obligations.

i. Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

| | Less than 1 month £'000 | 1 to 6 months £'000 | 6 to 12 months £'000 | Over 12 months £'000 | Total £'000 |
|-------------------------------|-------------------------------|---------------------------|----------------------------|----------------------------|----------------|
| As at 30 June 2024 | | | | | |
| Payables | - | 398 | - | - | 398 |
| Distributions payable | 496 | - | - | - | 496 |
| Due to related parties | - | - | 1,156 | - | 1,156 |
| Borrowings | - | - | - | 3,482 | 3,482 |
| Contractual cash flows | 496 | 398 | 1,156 | 3,482 | 5,532 |
| As at 30 June 2023 | | | | | |
| Payables | - | 867 | - | - | 867 |
| Performance fees payable | - | - | - | 517 | 517 |
| Borrowings | - | - | (5) | 3,394 | 3,389 |
| Contractual cash flows | - | 867 | (5) | 3,911 | 4,773 |

4 Fair value measurement

The Fund measures and recognises financial assets and liabilities at fair value through profit or loss on a recurring basis.

- Financial assets/liabilities at fair value through profit or loss

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund will consider a combination of factors including, but not limited to, discount rates, passing and market yields, capital commitments, market comparable as well as other publicly available information for the valuation of its investments.

4 Fair value measurement (continued)

a. Fair value in an inactive or unquoted market (level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Investment properties held directly in the Fund are valued by an independent valuer periodically, and in any event by management as at 30 June each year. The determinants of valuation for Residential Property are:

- **Gross Market Rental or Gross Rental Income:**
The gross market rental is the estimated gross amount for which a property should be rented between a willing owner and a willing tenant on appropriate terms in an arm's length transaction, after proper marketing and wherein the parties have acted knowledgeably, prudently and without compulsion. Note that the gross market rental is before all operating costs such as building maintenance costs and property management fees
- **The Capitalisation Rate or Gross Rental Yield:**
The capitalisation rate or gross rental yield is the rate at which the gross market rental income is capitalised to determine the "Market Value before Purchaser's Costs". The gross rental yield is determined with regards to market evidence and typically between different locations.
- **Purchaser's Costs**
Purchaser's costs represent the estimated transaction costs a purchaser would likely incur when buying the property (primarily relating to stamp duty that would be payable by the purchaser). Purchaser's costs have been implicitly taken into consideration in the valuation of the properties through the use of net yield.

The Fund's investments in unlisted Sub-Trusts constitutes of units in the Sub-Trust. The Fund's investment in the Sub-Trust is recorded at the net asset value as calculated by the Sub-Trust's administrator.

Properties held directly in the Sub-Trust are valued by management at 30 June each year taking into account the most recent valuation prepared by an independent, certified valuer.

b. Recognised fair value measurements

The table below presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2024.

| As at 30 June 2024 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|----------------------------------|------------------|------------------|------------------|----------------|
| Assets | | | | |
| Units in L1 UK Property Trust 3A | - | - | 35,016 | 35,016 |
| Investment properties | - | - | 8,708 | 8,708 |
| Total assets | - | - | 43,724 | 43,724 |
| As at 30 June 2023 | | | | |
| Assets | | | | |
| Units in L1 UK Property Trust 3A | - | - | 34,905 | 34,905 |
| Investment properties | - | - | 8,808 | 8,808 |
| Total assets | - | - | 43,713 | 43,713 |

4 Fair value measurement (continued)

c. Transfer between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year.

There were no transfers between levels in the fair value hierarchy at the end of the reporting year.

d. Fair value measurements using significant unobservable inputs (level 3)

The following table presents the movement in level 3 instruments for the year ended 30 June 2024 by class of financial instrument.

| | Unlisted unit trust £'000 | Residential property £'000 | Total £'000 |
|--|---------------------------------|----------------------------------|----------------|
| Opening balance – 1 July 2022 | 31,456 | 7,925 | 39,381 |
| Gains/(losses) recognised in the statement of comprehensive income | 3,449 | 883 | 4,332 |
| Closing balance – 30 June 2023* | 34,905 | 8,808 | 43,713 |
| Gains/(losses) recognised in the statement of comprehensive income | 111 | (100) | 11 |
| Closing balance – 30 June 2024* | 35,016 | 8,708 | 43,724 |

*Includes unrealised gains/(losses) recognised in the statement of comprehensive income attributable to balances held at the end of the reporting period.

i. Valuation techniques and relationships to fair value

The following table summarises the key inputs used in determining property values quantitative information about the significant unobservable inputs used in level 3 fair value measurements. See Note 4(a) above for the valuation techniques adopted.

| Description | Range | Weighted average |
|------------------------------------|-------------|---------------------|
| As at 30 June 2024 | | |
| Residential property | | |
| Gross rental income (£'000 annual) | £298 - £428 | £383 |
| Gross rental yield | 7.51%-9.90% | 8.33% |
| As at 30 June 2023 | | |
| Residential property | | |
| Gross rental income (£'000 annual) | £287 - £409 | £367 |
| Gross rental yield | 7.11%-9.40% | 7.90% |

4 Fair value measurement (continued)

d. Fair value measurements using significant unobservable inputs (level 3) (continued)

i. Valuation techniques and relationships to fair value (continued)

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurements. See Note 4(a) above for the valuation techniques adopted.

| Description | Valuation Method | Fair value £'000 | Unobservable inputs | Range of inputs (probability-weighted average) | Relationship of unobservable inputs to fair value |
|---|-------------------|------------------|---|--|---|
| As at 30 June 2024 L1 UK Property Trust 3A | Fair Value | 35,016 | Sub-Trust's Net Asset Value (NAV) as at 30 June 2024 | N/A | Direct |
| As at 30 June 2023 L1 UK Property Trust 3A | Fair Value | 34,905 | Sub-Trust's Net Asset Value (NAV) as at 30 June 2023 | N/A | Direct |

Sensitivity analysis

Valuation input

Relationship of valuation input to fair value

Gross rental income

The higher gross rental income, the higher the fair value.

Gross rental yield

The higher yield, the lower the fair value.

Based on an assessment of unobservable inputs relating to the fair value of investment properties, the most significant unobservable input is gross rental yield for residential properties.

The range of unobservable inputs for gross rental yield is assumed to be 7.51% to 9.90%. These ranges have been determined by the Responsible Entity as an appropriate assumption for this should be for 2024 yields scenario analysis.

A 10% increase or decrease of the unobservable input at 30 June 2024 would have increased/(decreased) the net assets attributable to unit holders and the profit for the year by +/- £4,372,400 (2023: +/- £4,371,300).

ii. Valuation processes

Investments in the Sub-Trust are valued as the Fund's share of net asset value as reported by the Sub-Trust's Investment Manager as calculated by the Sub-Trust's administrator. The Sub-Trust's level 3 investments consist of direct holdings of residential property in the United Kingdom which have been recognised at fair value for the year ended 30 June 2024.

The Fund's level 3 investments also consist of direct holdings of residential property in the United Kingdom which have been recognised at fair value for the year ended 30 June 2024.

As at 30 June 2024, the investment properties of the Fund have been valued with reference to the recommended market value within valuation reports prepared by an independent, certified valuer within the financial year.

The Fund's valuation policy is fully disclosed in section 5 of the Product Disclosure Statement.

If a property is purchased within six months prior to the reporting year and where there is no existing external valuation, the Fund may value the property at acquisition costs plus any capital expenditures incurred following the acquisition, provided the Responsible Entity is satisfied that this represents fair value at the reporting date and has been applied in these reports.

5 Financial assets at fair value through profit or loss

| | As at | |
|--|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| L1 UK Property Trust 3A | 35,016 | 34,905 |
| Total financial assets at fair value through profit or loss | 35,016 | 34,905 |

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and Note 4 to the financial statements.

6 Investment properties

| | As at | |
|--|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Fair value at the beginning of the year | 8,808 | 7,925 |
| Gains/(losses) recognised in the statement of comprehensive income | 100 | 883 |
| Fair value at the end of the year | 8,708 | 8,808 |

7 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangement.

The Fund considers all investments in managed investment schemes (the "Schemes") to be structured entities.

The Fund invests in Schemes for the purpose of capital appreciation and or earning investment income.

The Fund controls but does not consolidate L1 UK Property Trust 3A (Sub-Trust). The Sub-Trust is measured at fair value through profit or loss in accordance with the investment entity exception to consolidation.

The exposure to investments in related Schemes at fair value is disclosed in the following table:

| | Fair value of investment As at | |
|-------------------------|-----------------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| L1 UK Property Trust 3A | 35,016 | 34,905 |
| Total | 35,016 | 34,905 |

The fair value of the Schemes is included in financial assets at fair value through profit or loss in the statement of financial position.

The Fund's maximum exposure to loss from its interest in the Schemes is equal to the fair value of its investments in the Schemes as there are no off-balance sheet exposures relating to any of the Schemes. Once the Fund has disposed of its units in a scheme, it ceases to be exposed to any risk from that scheme.

During the year ended 30 June 2024, net gains/(losses) incurred on investments in the Schemes were £111,054 (2023: £3,448,930).

8 Net assets attributable to unit holders - equity

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

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

| | Year ended | | Year ended | |
|--------------------------------|----------------------------------|--------------------------|----------------------------------|--------------------------|
| | 30 June 2024 Units '000 | 30 June 2024 £'000 | 30 June 2023 Units '000 | 30 June 2023 £'000 |
| Opening balance | 62,113 | 39,014 | 62,113 | 35,815 |
| Distributions paid and payable | - | (990) | - | - |
| Profit/(loss) for the year | - | 1,181 | - | 3,199 |
| Closing balance | 62,113 | 39,205 | 62,113 | 39,014 |

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right in the underlying assets of the Fund.

There is one class of units. Each unit within the class has the same rights as all other units within that class.

9 Distributions to unit holders

The distributions declared during the year were as follows:

| | Year ended | |
|---------------------------------------|---------------------------|------------------------|
| | 30 June 2024 \$'000 | 30 June 2024 CPU |
| Distributions – Ordinary Class | | |
| December | 494 | 0.7946 |
| June (payable) | 496 | 0.7992 |
| Total distributions | 990 | 1.5938 |

There were no distributions declared for the year ended 30 June 2023.

10 Cash and cash equivalents

| | As at | |
|--|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Cash at bank | 179 | 161 |
| Total cash and cash equivalents | 179 | 161 |

11 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | Year ended | |
|--|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Profit/(loss) for the year | 1,181 | 3,199 |
| Net (gains)/losses on financial asset at fair value through profit or loss | (111) | (3,449) |
| Net foreign exchange (gain)/loss | (15) | (2) |
| Net change in fair value of investment properties | 100 | (883) |
| Distributions from Sub-trust | (983) | - |
| Net change in receivables | 10 | 14 |
| Net change in payables and performance fees payable | (986) | 456 |
| Amortisation of borrowing costs | 123 | 56 |
| Movement in deferred tax balances | (25) | 219 |
| Net cash inflow/(outflow) from operating activities | (706) | (390) |

12 Prepayment and other receivables

| | As at | |
|--------------------------|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| GST receivable | 21 | 21 |
| Prepaid expenses | 13 | - |
| Rent receivable | 35 | 48 |
| Other receivables | - | 10 |
| Total receivables | 69 | 79 |

a. Allowance for expected credit losses

| | As at | |
|------------------------------|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Beginning balance | 148 | 14 |
| (Reversal)/impairment charge | (148) | 134 |
| Ending balance | - | 148 |

13 Payables

| | As at | |
|------------------------------------|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Management fees and costs payable | 365 | 823 |
| Foreign taxes payable | - | 16 |
| Professional services fees payable | 30 | 26 |
| Other payable | 3 | 2 |
| Total payables | 398 | 867 |

14 Other income

| | Year ended | |
|---------------------------|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Bad debts recovered | 39 | - |
| Insurance income | 5 | - |
| Total other income | 44 | - |

15 Income tax

Whilst the Fund is not an income taxpayer in Australia, it is liable for paying income tax to His Majesty's Revenue and Customs Authority in the UK on capital gains realised on the disposal of investment property. For further details, refer to Note 2(h).

The major components of income tax expense in the statement of comprehensive income are:

| | As at | |
|--|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Deferred tax | | |
| Deferred tax liabilities/(assets) comprise of temporary differences attributable to: | | |
| Opening balance | 243 | 24 |
| Unrealised capital gain on investment property | (25) | 219 |
| Total deferred tax liability | 218 | 243 |
| Total Income tax expense/(benefit) | (25) | 219 |

16 Borrowings

| | As at | |
|-------------------------------------|--------------------------|--------------------------|
| | 30 June 2024 £'000 | 30 June 2023 £'000 |
| Current | | |
| Interest on loans | - | 51 |
| Borrowing costs | - | (56) |
| Total current borrowings | - | (5) |
| Non-current | | |
| Borrowing costs | - | (56) |
| Related party loan | 3,482 | - |
| Bank facility | - | 3,450 |
| Total non-current borrowings | 3,482 | 3,394 |
| Total borrowings | 3,482 | 3,389 |

On 3 October 2023, the Fund entered into a loan agreement with L1 UK Property Nominee 3B1 Ltd and L1 UK Property Nominee 3B2 Ltd for an amount of GBP3,482,126 at an interest rate that is the Bank of England base rate plus a margin of 2.15% per annum payable quarterly. The loan will mature on 4 October 2028.

16 Borrowings (continued)

The Fund entered into a loan debt facility on 28 July 2020 with HSBC UK Bank PLC and fully repaid the loan on 6 October 2023. Key terms are summarised as follows:

| | |
|----------------|---|
| Facility limit | £3,625,000 |
| Interest | SONIA (Sterling Overnight Index Average) screen rate. |
| Repayments | Quarterly payments of £25,000 with balance due on termination date. |

The facility is denominated in Pound sterling.

The total interest expense for the year was £73,541 (2023: £207,694) and interest payable amounted to £Nil (2023: £50,699) as at 30 June 2024.

17 Remuneration of auditors

During the 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 |
| | \$ | \$ |
| Ernst & Young | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial statements | 32,857 | 30,400 |
| Total remuneration for audit and other assurance services | 32,857 | 30,400 |
| <i>Taxation services</i> | | |
| Tax compliance services | 15,308 | 17,397 |
| Total remuneration for taxation services | 15,308 | 17,397 |
| Total remuneration of Ernst & Young | 48,165 | 47,797 |
| PricewaterhouseCoopers | | |
| Audit of compliance plan | 2,400 | 2,346 |
| Total remuneration for audit and other assurance services | 2,400 | 2,346 |
| Total remuneration of PricewaterhouseCoopers | 2,400 | 2,346 |

The auditors' remuneration is borne by the Fund. Fees are stated in Australian dollars net exclusive of GST.

18 Related party transactions

The Responsible Entity of L1 Capital UK Residential Property Fund III is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975). Accordingly, transactions with entities related to Equity Trustees Limited are disclosed below.

The Responsible Entity has contracted services to L1 UK Property Investments Pty Ltd to act as Investment Manager, and Apex Fund Services (Australia) Pty Ltd to act as Administrator and L1 UK Property Nominee 3A1 Pty Ltd and L1 UK Property Nominee 3A2 Pty Ltd to act as Custodians for the Fund. The contracts are on normal commercial terms and conditions.

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 compensation

Key management personnel are paid by EQT Services Pty Ltd. Payments made from the Fund to Equity Trustees Limited do not include any amounts directly attributable to the compensation of key management personnel.

d. 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.

e. Other transactions within the Fund

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

f. Other related parties

Due from/(to) L1 UK Property Trust 3A relates to expenses paid by/(paid for) the Fund. As at 30 June 2024 and 30 June 2023, the amounts due from related parties are summarised below.

| | 30 June 2024 £ | As at 30 June 2023 £ |
|--|-------------------------------|---|
| Due from/(to) L1 UK Property Trust 3A | (1,155,740) | 77,404 |
| Total due from/(to) related parties | (1,155,740) | 77,404 |

18 Related party transactions (continued)

g. Responsible Entity fees, Investment Manager's fees and other transactions

The transactions during the year and amounts payable at year end between the Fund, the Responsible Entity and the Investment Manager were as follows:

| | Year ended | |
|---|------------|----------|
| | 30 June | 30 June |
| | 2024 | 2023 |
| | £ | £ |
| Responsible Entity fees for the year | 24,597 | 29,653 |
| Management fees for the year | 316,549 | 285,116 |
| Management fees rebate for the year | (20,128) | (10,498) |
| Expense reimbursements for the year | 36,510 | 24,288 |
| Performance fees accrued/ (reversed) for the year | (517,371) | 517,371 |
| Responsible Entity fees payable at year end | 10,610 | 21,312 |
| Management fees payable at year end | 351,517 | 801,396 |
| Management fees rebate receivable at year end | 22,141 | (28,558) |
| Expense reimbursements payable at year end | 8,732 | 14,082 |
| Performance fees payable at year end | - | 517,371 |

Under the terms of the Fund's Constitution and Product Disclosure Statement, management fees and costs include responsible entity fees paid to the Responsible Entity, management fees paid to the Investment Manager and other costs (such as custody, administration and audit fees) paid to other unrelated parties. Please refer to the Fund's Product Disclosure Statement for information on how management fees and costs are calculated.

Management fee rebates represent 10% (net of tax) of the reimbursable expenses paid to L1 UK Property Ltd. This comprises of both the reimbursable expenses included in the management fees and costs recorded by the Fund and its Sub-Trust in their respective financial statements during the year.

Under the terms of the Fund's Constitution and Product Disclosure Statement, the Investment Manager is also entitled to receive a performance fee in relation to the performance of the Fund.

19 Unconsolidated subsidiaries

| Subsidiary name | Principal place of business | Ownership interest | |
|-------------------------|-----------------------------|--------------------|---------|
| | | As at | |
| | | 30 June | 30 June |
| | | 2024 | 2023 |
| | | % | % |
| L1 UK Property Trust 3A | United Kingdom | 99.99 | 99.99 |

Restrictions

The subsidiary receives income in the form of rent from its investments in United Kingdom residential rental properties. There are no significant restrictions on the transfer of funds from the Fund to the subsidiary.

The above subsidiary does not control any further subsidiaries.

20 Events occurring 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.

21 Contingent assets and liabilities and commitments

As at 30 June 2023, the Investment Manager estimated that approximately 24% of the Fund and Sub-Trust assets required some level of fire safety works. During the year, the Fund and Sub-Trust completed all fire safety remediations on its investment properties.

As at 30 June 2024, there were no regulatory orders or notifications issued by UK authorities, caveats or other conditions imposed on the titles of the investment properties held by the Fund and Sub-Trust that impacted the Fund and Sub-Trust's ability to continue to lease or sell these investment properties.

There were no other outstanding contingent assets, liabilities, or commitments as of 30 June 2024.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- a. The financial statements and notes set out on pages 6 to 33 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 of 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(a) 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
30 September 2024

Independent Auditor's Report to the unit holders of L1 Capital UK Residential Property Fund III

Opinion

We have audited the financial report of L1 Capital UK Residential Property Fund III (the Fund), which comprises the statement of financial position as at 30 June 2024, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including material accounting policy information, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the Corporations Act 2001, including:

- a. Giving a true and fair view of the Fund's financial position as at 30 June 2024 and of its financial performance for the year ended on that date; and
- b. 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 section of the auditor's report section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including the independence requirements of the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the Financial Report and Auditor's Report Thereon

The Directors of Equity Trustees Limited (the Responsible Entity) are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

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

If, based on the work we have performed, 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 of the Responsible Entity for the Financial Report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

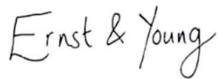
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that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

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

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Responsible Entity.
- ▶ Conclude on the appropriateness of the directors of the Responsible Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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

we communicate with the directors of the Responsible Entity 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.



Ernst & Young



Emma Reekie
Partner
Melbourne
30 September 2024