

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 30 JUNE 2023



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

FSREC Property Fund

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30 June 2023

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This annual report covers FSREC Property 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 2023

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.

	2023	2022
	\$'000	\$'000
Profit for the year	7,910	51,587
Adjustments:		
Fair value movement of investment properties	10,841	(28,428)
Straight-lining of rental revenue and incentive amortisation	2,778	646
Other items and amortisation of capitalised lease costs	1,402	1,107
One-off professional fee rebate	-	(106)
FFO	22,931	24,806
Distributions for the year	18,268	19,985
	<u>Cents per stapled security</u>	<u>Cents per stapled security</u>
FFO	9.29	10.05
Distributions	7.40	8.00

Distributions for the year represented a payout ratio of 80% of FFO (2022: 80%).

FSREC Property Fund
Directors' report
30 June 2023

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 2023.

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 the Responsible Entity during or since the end of the financial year and up to the date of this report:

E&P Investments Limited
(resigned effective 21 December 2022)

Stuart Nisbett
Warwick Keneally
Peter Shear

Equity Trustees Limited
(appointed effective 21 December 2022)

Philip D Gentry, Chairman
Michael J O'Brien
Russell W Beasley
Mary A O'Connor
David B Warren (appointed 6 March 2023)

Directors were in office from the start of the financial year to the date of this report, unless otherwise stated.

FSREC Property Fund
Directors' report
30 June 2023

Review and results of operations

a) Performance returns

	2023	2022
	%	%
Performance		
Growth return (a)	(2.17)	12.20
Distribution return (b)	4.02	4.87
Total return (c)	<u>1.85</u>	<u>17.07</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

	2023	2022
Profit for the financial year (\$'000)	7,910	51,587
Distributions paid and payable (\$'000)	18,268	19,985
Distributions (cents per stapled security)	7.40	8.00

c) Capital management

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.

Distributions

Distributions declared during the financial year were as follows:

	2023
	\$'000
1.85 cents per stapled security for the period ended 30 September 2022 paid on 4 November 2022	4,567
1.85 cents per stapled security for the period ended 31 December 2022 paid on 3 February 2023	4,567
1.85 cents per stapled security for the period ended 31 March 2023 paid on 8 May 2023	4,567
1.85 cents per stapled security for the period ended 30 June 2023 paid on 4 August 2023	<u>4,567</u>
	<u>18,268</u>

Significant changes in the state of affairs

Effective 21 December 2022, Equity Trustees Limited replaced E&P Investments 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 (together, **the Schemes**) pursuant to an extraordinary resolution passed on 19 December 2022.

David B Warren was appointed as a director of Equity Trustees Limited on 6 March 2023.

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.

FSREC Property Fund
Directors' report
30 June 2023

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023 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 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 regards 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 are 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 material 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.

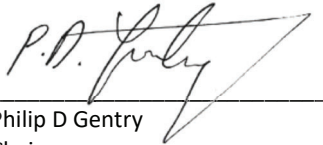
**FSREC Property Fund
Directors' report
30 June 2023**

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.

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

A handwritten signature in black ink, appearing to read 'P.D. Gentry', is written over a horizontal line. The signature is stylized and cursive.

Philip D Gentry
Chairman

Melbourne
14 September 2023

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

14 September 2023

Dear Board Members

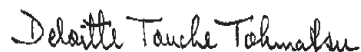
Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

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 2023, 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 comprehensive income
For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Investment income			
Rental income		48,103	48,118
Other property income		11,820	11,491
Finance income	4	107	2
Fair value movement of investment properties	11	(10,841)	28,428
Total investment income		<u>49,189</u>	<u>88,039</u>
Expenses			
Investment property expenses		23,740	20,268
Finance expense	5	9,518	7,560
Responsible Entity and trustee fees	22	972	1,755
Management fees	22	5,722	5,597
Accounting and audit fees		444	463
Other expenses	6	883	809
Total expenses		<u>41,279</u>	<u>36,452</u>
Profit for the year		7,910	51,587
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge	5	(554)	8,955
Other comprehensive (loss)/income for the year		<u>(554)</u>	<u>8,955</u>
Total comprehensive income for the year		<u><u>7,356</u></u>	<u><u>60,542</u></u>
Profit for the year attributable to:			
Ordinary securityholders of the Fund			
- Unitholders of FSREC Fund I		6,832	33,305
- Unitholders of FSREC Fund II and FSREC Fund III		1,077	18,281
Other non-controlling interest		1	1
		<u>7,910</u>	<u>51,587</u>
Total comprehensive income for the year attributable to:			
Ordinary securityholders of the Fund			
- Unitholders of FSREC Fund I		6,278	42,149
- Unitholders of FSREC Fund II and FSREC Fund III		1,077	18,392
Other non-controlling interest		1	1
		<u>7,356</u>	<u>60,542</u>
		Cents	Cents
Basic earnings per stapled security	7	3.20	20.12
Diluted earnings per stapled security	7	3.20	20.12

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

FSREC Property Fund
Consolidated statement of financial position
As at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	8,698	9,768
Trade and other receivables	10	5,023	2,037
Derivative financial instruments		3,777	1,627
Prepayments		1,345	1,225
Total current assets		18,843	14,657
Non-current assets			
Investment properties	11	698,000	703,700
Derivative financial instruments		2,291	4,085
Total non-current assets		700,291	707,785
Total assets		719,134	722,442
Liabilities			
Current liabilities			
Trade and other payables	12	10,950	8,354
Distributions payable		4,575	4,946
Total current liabilities		15,525	13,300
Non-current liabilities			
Borrowings	13	258,322	255,605
Total non-current liabilities		258,322	255,605
Total liabilities		273,847	268,905
Net assets		445,287	453,537
Equity			
Issued capital	14	178,376	176,925
Cash flow hedge reserve	15	5,614	6,168
Retained profits		46,247	51,340
Equity attributable to the securityholders of FSREC Fund I		230,237	234,433
Total equity attributable to other members of the Fund – FSREC Fund II and FSREC Fund III		215,027	219,081
Other non-controlling interest	16	23	23
Total equity		445,287	453,537

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 2023

	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 income for the year	-	(554)	-	-	-	(554)
Total comprehensive income for the year	-	(554)	6,832	1,077	1	7,356
<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)
Distributions to other non-controlling interest	-	-	-	-	(1)	(1)
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 changes in equity
For the year ended 30 June 2023

	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 2021	224,951	(2,676)	28,649	260,971	23	511,918
Profit for the year	-	-	33,305	18,281	1	51,587
Other comprehensive income for the year	-	8,844	-	111	-	8,955
Total comprehensive income for the year	-	8,844	33,305	18,392	1	60,542
<i>Transactions with securityholders in their capacity as securityholders:</i>						
Issue of stapled securities (Note 14)	169,432	-	-	160,568	-	330,000
Issue costs (Note 14)	(1,720)	-	-	(1,630)	-	(3,350)
Redemption of stapled securities (Note 14)	(215,571)	-	-	(209,683)	-	(425,254)
Redemption costs (Note 14)	(167)	-	-	(166)	-	(333)
Distributions declared (Note 17)	-	-	(10,614)	(9,371)	-	(19,985)
Distributions to other non-controlling interest	-	-	-	-	(1)	(1)
Balance at 30 June 2022	176,925	6,168	51,340	219,081	23	453,537

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 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Rental and other income received		68,595	59,790
Interest income received		107	2
Finance costs		(8,407)	(5,048)
Payments to suppliers		(42,619)	(33,798)
Net cash from operating activities	9	17,676	20,946
Cash flows from investing activities			
Receipt of insurance proceeds for restoration works	11	16,920	4,160
Proceeds from sale of investment property		-	145,850
Payments for capital expenditure		(21,688)	(10,204)
Net cash (used in)/from investing activities		(4,768)	139,806
Cash flows from financing activities			
Issue of stapled securities, net of costs		88,403	326,650
Payment of redemption of stapled securities and redemption costs		(85,740)	(425,587)
Gross proceeds from borrowings		2,000	14,000
Payment of borrowing costs		-	(57)
Repayment of borrowings		-	(47,500)
Payment of early termination of swap contract		-	(2,391)
Distributions paid		(18,641)	(21,324)
Net cash used in financing activities		(13,978)	(156,209)
Net (decrease)/increase in cash and cash equivalents		(1,070)	4,543
Cash and cash equivalents at the beginning of the financial year		9,768	5,225
Cash and cash equivalents at the end of the financial year	8	8,698	9,768

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 2023

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.

Pursuant to a resolution approved on 19 December 2022, Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975) (the **Responsible Entity**) replaced E&P Investments Limited (the **Former Responsible Entity**) 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 (together, **the Schemes**) effective 21 December 2022. The Responsible Entity's registered office is Level 1, 575 Bourke Street, Melbourne, VIC 3000.

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 significant accounting policies

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards (**IFRS**).

For the purposes of preparing the consolidated financial statements, the Fund is a for-profit entity.

New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

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 2023 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.

2. Summary of significant accounting policies (continued)

Basis of preparation

FSREC Property Fund was established through the restructure of FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV (**Restructure**) on 23 December 2020. The Restructure comprised of FSREC Fund I's acquisition of all units in FSREC Fund IV and the subsequent stapling of FSREC Fund I, FSREC Fund II and FSREC Fund III. FSREC Property Fund 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 the issued units 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 FSREC Property 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.

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 interest in the results and equity of subsidiaries are shown separately in the statement of 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.

2. Summary of significant accounting policies (continued)

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.

Revenue

Interest income

Interest income is recognised in profit or loss using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

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.

Expenses

All expenses are recognised in the statement of 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 assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

2. Summary of significant accounting policies (continued)

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.

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.

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.

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. Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

iv. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on the bid price for all quoted investments in an active market. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active, including recent arm's length transactions, and reference to similar instruments and valuation techniques commonly used by market participants. At 30 June 2023, the fair value of financial assets and financial liabilities approximates their carrying value.

v. 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 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.

2. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity 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.

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**).

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.

2. Summary of significant accounting policies (continued)

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.

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.

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

Accounting policies which are subject to significant accounting estimates and judgements include:

a) Fair value assessment of investment properties

Investment properties are carried at fair value. Refer to Note 11 for further details.

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.

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.

b) Expected credit losses (ECL)

The Fund has recognised a loss allowance for lifetime ECL on trade receivables based on management estimates of probability of recoverability of rental income invoiced. Refer to Note 10 for further details. The allowance for ECL is calculated based on the information available at the time of calculation. The actual credit losses in future periods may be higher or lower.

4. Finance income

	2023	2022
	\$'000	\$'000
Finance income - interest income from bank deposits	<u>107</u>	<u>2</u>

5. Finance expense

	2023	2022
	\$'000	\$'000
Recognised directly in profit or loss		
Interest expense on financial liabilities measured at amortised cost	9,189	1,999
Interest (income)/expense on cash flow hedge	(2,299)	2,933
Other finance costs - including facility line fees and amortisation of loan establishment costs	<u>2,628</u>	<u>2,628</u>
Finance expense recognised directly in profit or loss	<u>9,518</u>	<u>7,560</u>

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5. Finance expense (continued)

	2023	2022
	\$'000	\$'000
Recognised in other comprehensive income		
Net (losses)/gains on cash flow hedge for the year:		
- Realised (gains)/losses transferred to profit or loss as finance expense	(2,299)	2,933
- Unrealised gains on cash flow hedge	1,745	6,022
	<u> </u>	<u> </u>
Net (losses)/gains on interest rate swaps recognised in other comprehensive income	<u> (554)</u>	<u> 8,955</u>

6. Other expenses

	2023	2022
	\$'000	\$'000
Legal and compliance costs	453	153
Due diligence expense	-	1
Other operating expenses	430	655
	<u> </u>	<u> </u>
Total other expenses	<u> 883</u>	<u> 809</u>

7. Earnings per stapled security

	2023	2022
	\$'000	\$'000
Profit for the year	7,910	51,587
Other non-controlling interest	(1)	(1)
	<u> </u>	<u> </u>
Profit attributable to the securityholders of FSREC Property Fund	<u> 7,909</u>	<u> 51,586</u>
	Number	Number
Weighted average number of securities used in calculating basic earnings per stapled security	<u>246,874,772</u>	<u>256,366,381</u>
Weighted average number of securities used in calculating diluted earnings per stapled security	<u>246,874,772</u>	<u>256,366,381</u>
	Cents	Cents
Basic earnings per stapled security	3.20	20.12
Diluted earnings per stapled security	3.20	20.12

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8. Cash and cash equivalents

	2023	2022
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	8,698	9,768

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

At 30 June 2023, the Fund had available \$40,384,000 (2022: \$42,384,000) 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

	2023	2022
	\$'000	\$'000
Profit for the year	7,910	51,587
Adjustments for:		
Fair value movement of investment properties	10,841	(28,428)
Rental straight-lining, tenant incentives and other adjustments	(1,007)	(3,328)
Amortisation of borrowing costs	717	717
Amortisation of early swap termination	(456)	1,293
Change in operating assets and liabilities:		
(Increase)/decrease in receivables	(1,159)	666
(Increase)/decrease in prepayments	(118)	116
Increase/(decrease) in payables	948	(1,677)
Net cash from operating activities	17,676	20,946

b) Net debt reconciliation

	2023	2022
	\$'000	\$'000
Reconciliation of net debt movements		
Secured bank loan balance at the beginning of the year	255,605	288,445
Changes from financing cash flows:		
Proceeds from borrowings	2,000	14,000
Repayment of borrowings	-	(47,500)
Payment of borrowing costs	-	(57)
Non-cash changes:		
Amortisation of borrowing costs	717	717
Secured bank loan balance at the end of year	258,322	255,605

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10. Trade and other receivables

	2023	2022
	\$'000	\$'000
<i>Current assets</i>		
Rental and outgoing receivables	1,675	1,883
Less: allowance for expected credit losses	(533)	(1,066)
	<u>1,142</u>	<u>817</u>
Accrued rental income	1,091	774
Receivable from insurers	2,649	368
GST receivable	141	78
	<u>141</u>	<u>78</u>
Total trade and other receivables	<u>5,023</u>	<u>2,037</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.

	2023 (\$'000)				
	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
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
	2022 (\$'000)				
	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Expected credit losses rate	5%	19%	31%	100%	57%
Rental and outgoing receivables	464	280	218	921	1,883
Expected credit losses	23	54	68	921	1,066

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11. Investment properties

	2023	2022
	\$'000	\$'000
Disclosed in consolidated statement of financial position as:		
<i>Non-current assets</i>		
Investment properties - at fair value	<u>698,000</u>	<u>703,700</u>
<i>Movement in investment properties - at fair value</i>		
Carrying amount of investment properties at beginning of year	703,700	666,050
Capital expenditure	4,134	5,894
Rental straight-lining, tenant incentives and other adjustments	1,007	3,328
Fair value movement	<u>(10,841)</u>	<u>28,428</u>
Carrying amount of investment properties at end of year	<u>698,000</u>	<u>703,700</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 2023 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% - 6.50%) 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% - 7.25%) 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 2023 would result in a change in the portfolio valuation, by a decrease of \$29.0 million or an increase of \$31.7 million.

Rectification works were undertaken on one of the Fund's investment properties, Toormina Gardens, in response to a severe hail storm that occurred late October 2021. As at 30 June 2023, Toormina Gardens was open and trading and the rectification works had been completed. As at 30 June 2023, the Fund has spent \$22.7 million in total for the rectification works of Toormina Gardens, of which \$21.1 million progress payments has been received from insurers. Rectification works recoverable from insurers form part of the receivable from insurers and are not capitalised as investment property.

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:

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11. Investment properties (continued)

	2023	2022
	\$'000	\$'000
Minimum lease payments receivable but not recognised in the financial statements:		
Within one year	50,536	50,967
One to five years	130,541	135,079
More than five years	52,043	48,411
	<u>233,120</u>	<u>234,457</u>

12. Trade and other payables

	2023	2022
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	472	1,518
Accrued liabilities	7,407	4,423
Contract liabilities (deferred income)	2,387	1,840
GST payable	684	573
Total trade and other payables	<u>10,950</u>	<u>8,354</u>

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

	2023	2022
	\$'000	\$'000
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>258,322</u>	<u>255,605</u>

Refer to Note 19 for further information on financial instruments.

FSREC Property Fund
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13. Borrowings (continued)

Financing arrangements

As at 30 June 2023, the Fund had a \$300 million loan facility (2022: \$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 2023, the Fund's facility is as follows:

	2023	2022
	\$'000	\$'000
Total facilities		
Secured bank loan facilities	<u>300,000</u>	<u>300,000</u>
Used at the reporting date		
Secured bank loan facilities	<u>259,616</u>	<u>257,616</u>
Unused at the reporting date		
Secured bank loan facilities	<u>40,384</u>	<u>42,384</u>

The Fund has entered into a series of interest rate swap contracts with a notional amount of \$181.0 million (2022: \$136.0 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 2023, after taking into account the remaining interest rate swaps, 69.7% (2022: 52.8%) of the Fund's borrowings are hedged. The Fund's average cost of drawn debt is approximately 3.58% (2022: 3.03%) (excluding costs relating to undrawn debt).

The drawn amount is secured against investment properties held by the Fund with a carrying value of \$698.0 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

	2023	2022	2023	2022
	Units*	Units*	\$'000	\$'000
Balance at the beginning of the year	246,911,167	312,632,131	176,925	224,951
Issue of FSREC Fund I units	48,045,278	192,982,455	45,699	169,432
Issue costs	-	-	-	(1,720)
Redemption of FSREC Fund I units	(48,083,783)	(258,703,419)	(44,170)	(215,571)
Redemption costs	-	-	(78)	(167)
Balance at the end of the year	<u>246,872,662</u>	<u>246,911,167</u>	<u>178,376</u>	<u>176,925</u>

*Total stapled securities of the Fund at 30 June 2023 are 246,872,662 (2022: 246,911,167) 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.

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.

FSREC Property Fund
Notes to the consolidated financial statements
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14. Issued capital (continued)

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 (2022: \$176,925,327).

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

The debt to equity ratio at 30 June 2023 was 58.01% (2022: 56.36%).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2023, the gearing ratio of total amount drawn of \$259,616,000 (2022: \$257,616,000) to the total value of investment properties of \$698,000,000 (2022: \$703,700,000) was 37.19% (2022: 36.61%).

15. Cash flow hedge reserve

	2023	2022
	\$'000	\$'000
Cash flow hedge reserve	<u>5,614</u>	<u>6,168</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 2021	(2,676)
Unrealised gains on cash flow hedge reserve	5,911
Realised losses transferred to profit or loss as finance expense	<u>2,933</u>
Balance at 30 June 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	<u>5,614</u>

16. Other non-controlling interest

	2023	2022
	\$'000	\$'000
Issued capital	50	50
Retained profits	<u>(27)</u>	<u>(27)</u>
Total non-controlling interest	<u>23</u>	<u>23</u>

The non-controlling interest had a 0.02% (2022: 0.02%) equity holding in Australian Property Opportunities Trust III and 0.03% (2022: 0.03%) in Fort Street Real Estate Capital Trust IV at balance date.

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17. Distributions

Distributions declared during the financial year were as follows:

	2023
	\$'000
1.85 cents per stapled security for the period ended 30 September 2022 paid on 4 November 2022	4,567
1.85 cents per stapled security for the period ended 31 December 2022 paid on 3 February 2023	4,567
1.85 cents per stapled security for the period ended 31 March 2023 paid on 8 May 2023	4,567
1.85 cents per stapled security for the period ended 30 June 2023 paid on 4 August 2023	4,567
	<hr/>
Total distributions	18,268
	<hr/> <hr/>

18. Fair value measurement

Fair value of the Fund's financial 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 financial 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 financial asset or liability, either directly (as price) or indirectly (derived from prices)
- **Level 3:** unobservable inputs for the financial asset or liability.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
2023				
<i>Assets</i>				
Investment properties	-	-	698,000	698,000
Derivative financial instruments	-	6,068	-	6,068
Total assets	<hr/> -	<hr/> 6,068	<hr/> 698,000	<hr/> 704,068
2022				
<i>Assets</i>				
Investment properties	-	-	703,700	703,700
Derivative financial instruments	-	5,712	-	5,712
Total assets	<hr/> -	<hr/> 5,712	<hr/> 703,700	<hr/> 709,412

An interest rate swap contract has been entered into by the Fund to hedge 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 an asset of \$6,068,275 (2022: \$5,711,941).

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.

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

18. Fair value measurement (continued)

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

The fair value of financial assets and financial 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.

	2023		2022	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Cash and cash equivalents	2.22%	8,698	0.56%	9,768
Exposed debt not covered by swap instruments	3.54%	<u>(78,616)</u>	0.78%	<u>(121,616)</u>
Net exposure to cash flow interest rate risk		<u><u>(69,918)</u></u>		<u><u>(111,848)</u></u>

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 69.7% hedged.

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

19. Financial instruments (continued)

	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
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>
	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
2022						
Cash and cash equivalents	50	49	49	(50)	(49)	(49)
Cash flow hedge	50	-	1,058	(50)	-	(1,072)
Exposed debt not covered by swaps	50	(608)	(608)	(50)	608	608
		<u>(559)</u>	<u>499</u>		<u>559</u>	<u>(513)</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.

	2023 \$'000	2022 \$'000
Summary of exposure		
Cash and cash equivalents	8,698	9,768
Trade and other receivables	5,023	2,037
Derivative financial assets	<u>6,068</u>	<u>5,712</u>
	<u>19,789</u>	<u>17,517</u>

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.

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

19. Financial instruments (continued)

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 \$532,623 (2022: \$1,006,017) 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:

	2023	2022
	\$'000	\$'000
Secured bank loan facilities	40,384	42,384

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.

2023	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivative financial liabilities				
<i>Non-interest bearing</i>				
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

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

19. Financial instruments (continued)

2022	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivative financial liabilities				
<i>Non-interest bearing</i>				
Trade payables	1,518	-	-	1,518
Accrued liabilities	4,423	-	-	4,423
GST payable	573	-	-	573
Distributions payable	4,946	-	-	4,946
Borrowings	6,906	276,990	-	283,896
Total non-derivatives	18,366	276,990	-	295,356

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	Principal place of business / Country of incorporation	Ownership interest	
		2023 %	2022 %
Controlled entities of Fort Street Real Estate Capital Fund I			
Australian Property Opportunities Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund IV	Australia	100.00%	100.00%
Fort Street Real Estate Capital Trust IV	Australia	99.97%	99.97%
FSREC IV No.1 Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund II*			
Australian Property Opportunities Trust II	Australia	-	-
APOT II No.1	Australia	-	-
Fort Street Real Estate Capital Fund III*			
Australian Property Opportunities Trust III	Australia	-	-
APOT III No.1 Trust	Australia	-	-

*Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III and their controlled entities (as disclosed above) are considered, for financial reporting purposes, controlled entities of Fort Street Real Estate Capital Fund I due to the stapling arrangements described in Note 1 even though there are no ownership interests.

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

21. Parent entity information

During the year ended 30 June 2023, the parent entity of the Fund was Fort Street Real Estate Capital Fund I (**FSREC Fund I**).

	2023	2022
	\$'000	\$'000
<i>Summarised statement of financial position</i>		
Current assets	3,487	4,449
Non-current assets	218,458	218,458
Total assets	221,945	222,907
Current liabilities	48,688	49,010
Total liabilities	48,688	49,010
Net assets	173,257	173,897
<i>Summarised statement of comprehensive income</i>		
Revenue	10,910	15,171
Expenses	(1,075)	(1,417)
Profit for the year	9,835	13,754
Other comprehensive income	-	-
Total comprehensive income	9,835	13,754
<i>Unitholders' equity in the parent entity</i>		
Issued capital	178,376	176,925
Accumulated losses	(5,119)	(3,028)
Total equity	173,257	173,897

As at 30 June 2023, FSREC Fund I's statement of financial position discloses a deficiency of net current assets of \$45,200,906. The deficiency is primarily attributable to amounts payable to FSREC Fund III of \$45,242,729 disclosed as current liabilities. The directors of 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 (2022: nil).

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

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 the Fund during the period until 21 December 2022 was E&P Investments Limited (the **Former Responsible Entity**). The Responsible Entity of the Fund from 21 December 2022 is Equity Trustees Limited (**EQT** or the **Responsible Entity**).

The related parties of the Fund with which it had transactions during the year ended 30 June 2023 are as follows:

Related party	Relationship
E&P Investments Limited and its associates	Significant influence until 21 December 2022
Equity Trustees Limited and its associates	Significant influence from 21 December 2022
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

Key management personnel

i. Directors

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

E&P Investments Limited
(resigned effective 21 December 2022)

Stuart Nisbett
 Warwick Keneally
 Peter Shear

Equity Trustees Limited
(appointed effective 21 December 2022)

Philip D Gentry, Chairman
 Michael J O'Brien
 Russell W Beasley
 Mary A O'Connor
 David B Warren (appointed 6 March 2023)

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.

Key management personnel held stapled securities in the Fund at balance date, as follows:

	2023	2022
	Stapled	Stapled
	Securities	Securities
Stuart Nisbett (resigned 21 December 2022)	-	1,239
Warwick Keneally (resigned 21 December 2022)	-	20,897
	<hr/>	<hr/>
	-	22,136
	<hr/> <hr/>	<hr/> <hr/>

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

22. Related party transactions (continued)

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.

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.

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.

Related party investments in the Fund

As at 30 June 2023, Fort Street Real Estate Capital Pty Ltd held 873,842 stapled securities (2022: 873,842 stapled securities), representing 0.35% interest (2022: 0.35%) 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 2023 was \$64,664 (2022: \$69,907).

Responsible Entity fee 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:

	2023		2022	
	Transactions \$	Payable at year-end \$	Transactions \$	Payable at year-end \$
Former Responsible Entity fees*	863,033	-	1,755,433	147,543
Responsible Entity fees*	79,514	37,767	-	-
Trustee fees*	29,543	13,960	-	-
Investment Manager fees**	3,907,260	378,819	3,830,011	393,135
Disposal fees	-	-	1,497,676	-
Property Manager fees**	1,814,768	174,734	1,766,558	167,469
Development Manager fees	15,250	4,004	162,024	47,878
Leasing Services fees	709,424	-	667,735	345,298
Legal and Consulting services	-	-	50,105	-
Signage fees	-	-	4,823	-

*Responsible Entity and Trustee fees for the year ended 30 June 2023 totalling \$972,090 (2022: \$1,755,433) are included in the statement of comprehensive income as Responsible Entity and trustee fees.

**Investment Manager fees and Property Manager fees for the year ended 30 June 2023 totalling \$5,722,028 (2022: \$5,596,569) are included in the statement of comprehensive income as Management fees.

All other related party transactions are included in the statement of comprehensive income or capitalised as investment properties.

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

22. Related party transactions (continued)

Responsible Entity fee

E&P Investments Limited, as former Responsible Entity of the Schemes, received a fee for the performance of its duties under the constitutions. The former Responsible Entity Fee was 0.24% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly.

Following the change of responsible entity to EQT on 21 December 2022, the Responsible Entity fee basis is disclosed in the supplemental deeds pursuant to an extraordinary resolution passed on 19 December 2022.

Trustee fee

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

Trust	Trustee up to 21 December 2022 (Former Trustee)	Trustee from 21 December 2022
Australian Properties Opportunities Trust	E&P Investment Services Pty Limited	EQT Australia Pty Ltd
Fort Street Real Estate Capital Fund IV	E&P Investment Services Pty Limited	EQT Responsible Entity Services Limited
Fort Street Real Estate Capital Trust IV	E&P Funds Management Pty Limited	EQT Structured Finance Services Pty Ltd
FSREC IV No.1 Trust	E&P Investment Services Pty Limited	EQT Australia Pty Ltd
Australian Properties Opportunities Trust II	E&P Investment Services Pty Limited	EQT Responsible Entity Services Limited
APOT II No.1	E&P Investment Services Pty Limited	EQT Australia Pty Ltd
Australian Properties Opportunities Trust III	E&P Funds Management Pty Limited	EQT Responsible Entity Services Limited
APOT III No.1 Trust	E&P Investment Services Pty Limited	EQT Australia Pty Ltd

Until 21 December 2022, the trustees of the Trusts in the Fund were associates of the former Responsible Entity and did not receive trustee fees.

Following the change of responsible entity to EQT on 21 December 2022, the new 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.

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.

FSREC Property Fund
Notes to the consolidated financial statements
30 June 2023

22. Related party transactions (continued)

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.

Legal and Consulting services

MDA1 Pty Limited, trading as MA Law, provided legal and consulting services to the Former Responsible Entity and the investment schemes under its control. Mike Adams, a director and shareholder of MDA1 Pty Limited, was also a director of the Former Responsible Entity until 9 December 2021.

Signage fee

E&P Financial Group Limited and E&P Funds Group Pty Limited, related parties of the Former Responsible Entity, have a contractual agreement with the trustee of APOT III No.1 Trust, E&P Investment Services Pty Limited, to receive a non-exclusive licence for the use of the signage at the Mascot property as provided under the terms of the signage license agreement.

The Fund did not hold any investments in its related parties during the year (2022: 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:

	2023	2022
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit and review of the financial statements	257,750	234,000
<i>Other services - Deloitte Touche Tohmatsu</i>		
Taxation services	79,700	79,700
Other services	-	28,228
	79,700	107,928
	337,450	341,928

24. Capital commitments

As at 30 June 2023, the Fund had committed \$3,433,508 in lease incentives arising from lease agreements (2022: \$2,894,608). 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 2023 and 30 June 2022.

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 statement of financial position as at 30 June 2023 or on the results and cash flows of the Fund for the year ended on that date.

FORT STREET REAL ESTATE CAPITAL FUND II (FSREC FUND II) AND FORT STREET REAL ESTATE CAPITAL FUND III (FSREC FUND III) FINANCIAL STATEMENTS

FSREC FUND II - ARSN 169 190 498 AND FSREC FUND III - ARSN 605 335 957



Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Consolidated statements of comprehensive income
For the year ended 30 June 2023

	Note	FSREC Fund II		FSREC Fund III	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Investment income					
Rental income		13,431	13,640	6,829	5,977
Other property income		2,257	2,332	1,749	2,290
Finance income	3	28	-	18	1
Fair value movement of investment properties	10	(4,819)	10,028	(359)	(1,833)
Total investment income		10,897	26,000	8,237	6,435
Expenses					
Investment property expenses		6,303	5,679	3,229	2,323
Finance expense	4	3,326	1,304	1,853	1,027
Responsible entity and trustee fees	20	264	474	128	248
Management fees	20	1,538	1,501	759	848
Accounting and audit fees		138	137	86	96
Other expenses	5	249	157	184	360
Total expenses		11,818	9,252	6,239	4,902
(Loss)/profit for the year		(921)	16,748	1,998	1,533
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Effective portion of changes in fair value of cash flow hedge	4	-	111	-	-
Other comprehensive income for the year		-	111	-	-
Total comprehensive (loss)/income for the year		(921)	16,859	1,998	1,533
(Loss)/profit for the year attributable to:					
Non-controlling interest		-	-	-	-
Unitholders of FSREC Fund II and FSREC Fund III		(921)	16,748	1,998	1,533
		(921)	16,748	1,998	1,533
Total comprehensive (loss)/income for the year attributable to:					
Non-controlling interest		-	-	-	-
Unitholders of FSREC Fund II and FSREC Fund III		(921)	16,859	1,998	1,533
		(921)	16,859	1,998	1,533
Basic (loss)/earnings per unit	6	(0.37)	6.53	0.81	0.60
Diluted (loss)/earnings per unit	6	(0.37)	6.53	0.81	0.60

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Consolidated statements of financial position
As at 30 June 2023

	Note	FSREC Fund II		FSREC Fund III	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Assets					
Current assets					
Cash and cash equivalents	7	2,781	3,455	1,251	1,783
Trade and other receivables	9	565	423	2,848	689
Prepayments		276	249	54	44
Total current assets		3,622	4,127	4,153	2,516
Non-current assets					
Investment properties	10	189,500	194,000	89,000	88,500
Receivable from other members of the stapled group		-	-	65,982	67,071
Total non-current assets		189,500	194,000	154,982	155,571
Total assets		193,122	198,127	159,135	158,087
Liabilities					
Current liabilities					
Trade and other payables	11	2,939	2,447	1,778	814
Distributions payable		825	1,564	447	654
Payable to other members of the stapled group		19,926	20,878	68	318
Total current liabilities		23,690	24,889	2,293	1,786
Non-current liabilities					
Borrowings	12	73,829	73,270	37,410	37,180
Total non-current liabilities		73,829	73,270	37,410	37,180
Total liabilities		97,519	98,159	39,703	38,966
Net assets		95,603	99,968	119,432	119,121
Equity					
Issued capital	13	85,807	85,266	131,825	131,154
Retained profits/(accumulated deficit)		9,796	14,702	(12,401)	(12,041)
Equity attributable to the unitholders of FSREC Fund II and FSREC Fund III		95,603	99,968	119,424	119,113
Non-controlling interest	14	-	-	8	8
Total equity		95,603	99,968	119,432	119,121

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 2023

	Issued capital \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
FSREC Fund II					
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 13)	19,485	-	-	-	19,485
Redemption of units (Note 13)	(18,911)	-	-	-	(18,911)
Redemption costs (Note 13)	(33)	-	-	-	(33)
Distributions declared	-	-	(3,985)	-	(3,985)
Balance at 30 June 2023	85,807	-	9,796	-	95,603

	Issued capital \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Non- controlling interest \$'000	Total equity \$'000
FSREC Fund II					
Balance at 1 July 2021	106,201	(111)	3,698	-	109,788
Profit for the year	-	-	16,748	-	16,748
Other comprehensive income for the year	-	111	-	-	111
Total comprehensive income for the year	-	111	16,748	-	16,859
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Issue of units (Note 13)	70,903	-	-	-	70,903
Issue costs (Note 13)	(720)	-	-	-	(720)
Redemption of units (Note 13)	(91,046)	-	-	-	(91,046)
Redemption costs (Note 13)	(72)	-	-	-	(72)
Distributions declared	-	-	(5,744)	-	(5,744)
Balance at 30 June 2022	85,266	-	14,702	-	99,968

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 2023

	Issued capital \$'000	Cash flow hedge reserve \$'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 13)	23,219	-	-	-	23,219
Redemption of units (Note 13)	(22,508)	-	-	-	(22,508)
Redemption costs (Note 13)	(40)	-	-	-	(40)
Distributions declared	-	-	(2,358)	-	(2,358)
Balance at 30 June 2023	131,825	-	(12,401)	8	119,432

	Issued capital \$'000	Cash Flow hedge reserve \$'000	Accumulated deficit \$'000	Non- controlling interest \$'000	Total Equity \$'000
FSREC Fund III					
Balance at 1 July 2021	161,130	-	(9,947)	9	151,192
Profit for the year	-	-	1,533	-	1,533
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	1,533	-	1,533
Distributions paid to non-controlling interest	-	-	-	(1)	(1)
<i>Transactions with unitholders in their capacity as unitholders</i>					
Issue of units (Note 13)	89,665	-	-	-	89,665
Issue costs (Note 13)	(910)	-	-	-	(910)
Redemption of units (Note 13)	(118,637)	-	-	-	(118,637)
Redemption costs (Note 13)	(94)	-	-	-	(94)
Distributions declared	-	-	(3,627)	-	(3,627)
Balance at 30 June 2022	131,154	-	(12,041)	8	119,121

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 2023

	Note	FSREC Fund II		FSREC Fund III	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Cash flows from operating activities					
Rental and other income received		17,674	17,814	9,071	9,001
Interest income received		28	-	18	1
Finance costs		(2,794)	(982)	(1,434)	(761)
Payments to suppliers		(10,405)	(10,400)	(5,502)	(5,946)
Net cash from operating activities	8	4,503	6,432	2,153	2,295
Cash flows from investing activities					
Receipt of insurance proceeds for restoration works		-	-	16,920	4,160
Proceeds from sale of investments		-	-	-	145,850
Payments for capital expenditure		(442)	(2,501)	(18,549)	(5,082)
Net cash (used in)/from investing activities		(442)	(2,501)	(1,629)	144,928
Cash flows from financing activities					
Issue of stapled units, net of costs		19,485	70,183	23,219	88,755
Payment of redemption units and redemption costs		(18,944)	(91,118)	(22,548)	(118,731)
Gross proceeds from borrowings		400	1,600	-	7,100
Payment of borrowings costs		-	(12)	-	(18)
Repayment of borrowings		-	-	-	(47,500)
Net (payments to)/receipts from other members of the stapled group		(952)	20,878	838	(66,753)
Distributions paid		(4,724)	(4,188)	(2,565)	(9,243)
Net cash used in financing activities		(4,735)	(2,657)	(1,056)	(146,390)
Net (decrease)/increase in cash and cash equivalents		(674)	1,274	(532)	833
Cash and cash equivalents at the beginning of the financial year		3,455	2,181	1,783	950
Cash and cash equivalents at the end of the financial year	7	2,781	3,455	1,251	1,783

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

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 property.

2. Working Capital

As at 30 June 2023, FSREC Fund II's consolidated statement of financial position discloses a deficiency of net current assets of \$20,067,958. The deficiency is primarily attributable to amounts payable to FSREC Fund III of \$19,789,739 disclosed as current liabilities. The directors of the Responsible Entity of FSREC Fund III have confirmed in writing that they will not call for the repayment of the amounts payable by FSREC Fund II if such action would cause FSREC Fund II to be unable to pay its debts as and when they fall due and payable.

The directors are satisfied that FSREC Fund II will be able to meet its working capital requirements through the normal cyclical nature of receipts and payments and budgeted cash flows generated from operations. In addition, the Fund which includes FSREC Fund II has long-term finance facilities available for drawdown totalling \$40,384,000 as at 30 June 2023.

Accordingly, the directors consider it appropriate to prepare the year-end financial statement of FSREC Fund II on the going concern basis.

3. Finance income

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Finance income - interest income from bank deposits	28	-	18	1

4. Finance expense

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Recognised directly in profit or loss				
Interest expense on financial liabilities measured at amortised cost	2,622	576	1,344	299
Interest expense on cash flow hedge	-	111	-	-
Other finance costs - including facility line fees and amortisation of loan establishment costs	704	617	509	728
Finance expense recognised directly in profit or loss	3,326	1,304	1,853	1,027

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

4. Finance expense (continued)

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Recognised in other comprehensive income				
Net gains on cash flow hedge for the year:				
– Realised losses transferred to profit or loss	-	111	-	-
Net gains on interest rate swaps recognised in other comprehensive income	-	111	-	-

5. Other expenses

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Legal and compliance costs	120	45	109	45
Other operating expenses	129	112	75	315
Total other expenses	249	157	184	360

6. Earnings per unit

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
(Loss)/profit for the year	(921)	16,748	1,998	1,533
Non-controlling interest	-	-	-	-
(Loss)/profit attributable to the unitholders	(921)	16,748	1,998	1,533

	FSREC Fund II		FSREC Fund III	
	Number	Number	Number	Number
Weighted average number of units used in calculating basic earnings per unit*	246,874,772	256,366,381	246,874,772	256,366,381
Weighted average number of units used in calculating diluted earnings per unit*	246,874,772	256,366,381	246,874,772	256,366,381
	Cents	Cents	Cents	Cents
Basic (loss)/earnings per unit	(0.37)	6.53	0.81	0.60
Diluted (loss)/earnings per unit	(0.37)	6.53	0.81	0.60

*The weighted average number of stapled securities used by the Fund in calculating its basic and diluted earnings per stapled securities is 246,874,772 (2022: 256,366,381). 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.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

7. Cash and cash equivalents

	FSREC Fund II		FSREC Fund III	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Cash at bank	2,781	3,455	1,251	1,783

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

As at 30 June 2023, FSREC Fund II and FSREC Fund III had access to an undrawn committed borrowing facility of the Fund amounting to \$40,384,000 (2022: \$42,384,000). Details of the borrowing facility are set out in Note 12.

8. Cash flow information

a) Reconciliation of profit to net cash from operating activities

	FSREC Fund II		FSREC Fund III	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
(Loss)/profit for the year	(921)	16,748	1,998	1,533
Adjustments for:				
Fair value movement of investment properties	4,819	(10,028)	359	1,833
Rental straight-lining, tenant incentives and other adjustments	324	(223)	(427)	(140)
Amortisation of borrowing costs	159	158	230	230
Change in operating assets and liabilities:				
(Increase)/decrease in receivables	(142)	192	(199)	15
(Increase)/decrease in prepayments	(27)	1	(10)	194
Increase/(decrease) in payables	291	(416)	202	(1,370)
Net cash from operating activities	4,503	6,432	2,153	2,295

b) Net debt reconciliation

	FSREC Fund II		FSREC Fund III	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Reconciliation of net debt movements				
Secured bank loan balance at the beginning of the year	73,270	71,524	37,180	77,368
Changes from financing cash flows:				
Gross proceeds from borrowings	400	1,600	-	7,100
Repayment of borrowings	-	-	-	(47,500)
Payment of borrowing costs	-	(12)	-	(18)
Non-cash changes:				
Amortisation of borrowing costs	159	158	230	230
Secured bank loan balance at the end of the year	73,829	73,270	37,410	37,180

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

9. Trade and other receivables

	FSREC Fund II		FSREC Fund III	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Rental and outgoing receivables	596	488	67	392
Less: allowance for expected credit losses	(147)	(283)	(32)	(175)
	<u>449</u>	<u>205</u>	<u>35</u>	<u>217</u>
Accrued rental income	116	218	344	26
Receivable from insurers	-	-	2,328	368
GST receivable	-	-	141	78
	<u>-</u>	<u>-</u>	<u>141</u>	<u>78</u>
Total trade and other receivables	<u>565</u>	<u>423</u>	<u>2,848</u>	<u>689</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 10 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.

FSREC Fund II	0 - 30 days	31 - 60 days	2023 (\$'000)		Total
			61 - 90 days	90+ days	
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

FSREC Fund II	0 - 30 days	31 - 60 days	2022 (\$'000)		Total
			61 - 90 days	90+ days	
Expected credit losses rate	5%	8%	97%	80%	58%
Rental and outgoing receivables	88	71	54	275	488
Expected credit losses	4	6	52	221	283

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

FSREC Fund III	0 - 30 days	31 - 60 days	2022 (\$'000)		Total
			61 - 90 days	90+ days	
Expected credit losses rate	1%	2%	90%	100%	45%
Rental and outgoing receivables	159	55	51	127	392
Expected credit losses	1	1	46	127	175

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

10. Investment properties

	FSREC Fund II		FSREC Fund III	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Disclosed in consolidated statement of financial position as:				
<i>Non-current assets</i>				
Investment properties - at fair value	189,500	194,000	89,000	88,500
<i>Movement in investment properties - at fair value</i>				
Carrying amount of investment properties at beginning of year	194,000	181,050	88,500	90,000
Capital expenditure	643	2,699	432	193
Rental straight-lining, tenant incentives and other adjustments	(324)	223	427	140
Fair value movement of investment properties	(4,819)	10,028	(359)	(1,833)
Carrying amount of investment properties at end of year	189,500	194,000	89,000	88,500

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 2023 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 5.50% - 6.00% for FSREC Fund II and 6.50% 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 6.25% - 7.00% for FSREC Fund II and 7.25% 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 2023 were to increase by 0.25%, the portfolio valuation for FSREC Fund II would decrease by \$8.1 million and for FSREC Fund III by \$3.3 million. Conversely, a decrease of 0.25% in the capitalisation rate would result in a portfolio valuation increase of \$8.8 million for FSREC Fund II and \$3.6 million for FSREC Fund III.

Rectification works were undertaken on the investment property of FSREC Fund III, Toormina Gardens, in response to a severe hail storm that occurred late October 2021. As at 30 June 2023, Toormina Gardens was open and trading and the rectification works had been completed. As at 30 June 2023, FSREC Fund III has spent \$22.7 million in total for the rectification works of Toormina Gardens, of which \$21.1 million progress payments has been received from insurers. Rectification works recoverable from insurers form part of the receivable from insurers and are not capitalised as investment property.

Refer to Note 16 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:

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

10. Investment properties (continued)

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Minimum lease payments receivable but not recognised in the financial statements:				
Within one year	15,883	13,700	5,943	6,665
One to five years	39,453	40,693	14,181	14,376
More than five years	13,785	18,578	1,301	2,097
	<u>69,121</u>	<u>72,971</u>	<u>21,425</u>	<u>23,138</u>

11. Trade and other payables

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Trade payables	105	137	63	86
Accrued liabilities	1,871	1,353	1,397	434
Contract liabilities (deferred income)	723	721	318	294
GST payable	240	236	-	-
Total trade and other payables	<u>2,939</u>	<u>2,447</u>	<u>1,778</u>	<u>814</u>

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 17 for further information on financial instruments.

12. Borrowings

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Secured bank loan - net of borrowing costs	<u>73,829</u>	<u>73,270</u>	<u>37,410</u>	<u>37,180</u>

Refer to Note 17 for further information on financial instruments.

Financing arrangements

As at 30 June 2023, the Fund had a \$300 million loan facility (2022: \$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 2023, FSREC Fund II & FSREC Fund III had access to an undrawn committed borrowing facility of the Fund amounting to \$40.4 million (2022: \$42.4 million).

The average cost of drawn debt is approximately 4.53% for FSREC Fund II and 4.20% for FSREC Fund III (excluding costs relating to undrawn debt) (2022: 1.80% for FSREC Fund II and 3.22% 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 \$189.5 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
Notes to the consolidated financial statements
30 June 2023

13. Issued capital

	FSREC Fund II			
	2023 Units*	2022 Units*	2023 \$'000	2022 \$'000
Balance at the beginning of the year	246,911,167	312,632,131	85,266	106,201
Issue of units	48,045,278	192,982,455	19,485	70,903
Issue costs	-	-	-	(720)
Redemption of units	(48,083,783)	(258,703,419)	(18,911)	(91,046)
Redemption costs	-	-	(33)	(72)
Balance at the end of the year	<u>246,872,662</u>	<u>246,911,167</u>	<u>85,807</u>	<u>85,266</u>

	FSREC Fund III			
	2023 Units*	2022 Units*	2023 \$'000	2022 \$'000
Balance at the beginning of the year	246,911,167	312,632,131	131,154	161,130
Issue of units	48,045,278	192,982,455	23,219	89,665
Issue costs	-	-	-	(910)
Redemption of units	(48,083,783)	(258,703,419)	(22,508)	(118,637)
Redemption costs	-	-	(40)	(94)
Balance at the end of the year	<u>246,872,662</u>	<u>246,911,167</u>	<u>131,825</u>	<u>131,154</u>

*Total stapled securities of FSREC Property Fund at 30 June 2023 are 246,874,772 (2022: 246,911,167) 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.

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 (2022: \$85,265,534 for FSREC Fund II and \$131,153,318 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 2023 was 77.22% for FSREC Fund II and 31.32% for FSREC Fund III (2022: 73.29% for FSREC Fund II and 31.21% for FSREC Fund III).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2023, the FSREC Fund II gearing ratio of total amount drawn of \$74,115,000 (2022: \$73,715,000) to the total value of investment properties of \$189,500,000 (2022: \$194,000,000) was 39.11% (2022: 38.00%). At 30 June 2023, the FSREC Fund III gearing ratio of total amount drawn of \$37,826,000 (2022: \$37,826,000) to the total value of investment properties of \$89,000,000 (2022: \$88,500,000) was 42.50% (2022: 42.74%).

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

14. Non-controlling interest

The non-controlling interest had a 0.02% (2022: 0.02%) equity holding in Australian Property Opportunities Trust III at year end.

	FSREC Fund II		FSREC Fund III	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Issued capital	-	-	25	25
Retained profits	-	-	(17)	(17)
Total non-controlling interest	-	-	8	8

15. Distributions

Distributions declared during the financial year were as follows:

	2023 \$'000
FSREC Fund II	
0.43 cents per unit for the period ended 30 September 2022 paid on 4 November 2022	1,055
0.44 cents per unit for the period ended 31 December 2022 paid on 3 February 2023	1,091
0.41 cents per unit for the period ended 31 March 2023 paid on 8 May 2023	1,020
0.33 cents per unit for the period ended 30 June 2023 paid on 4 August 2023	819
Total distributions	3,985

	2023 \$'000
FSREC Fund III	
0.36 cents per unit for the period ended 30 September 2022 paid on 4 November 2022	878
0.14 cents per unit for the period ended 31 December 2022 paid on 3 February 2023	347
0.28 cents per unit for the period ended 31 March 2023 paid on 8 May 2023	686
0.18 cents per unit for the period ended 30 June 2023 paid on 4 August 2023	447
Total distributions	2,358

16. Fair value measurement

Fair value of FSREC Fund II's and FSREC Fund III's financial 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 financial 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 financial asset or liability, either directly (as price) or indirectly (derived from prices)
- **Level 3:** unobservable inputs for the financial asset or liability.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

16. Fair value measurement (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
FSREC Fund II - 2023				
<i>Assets</i>				
Investment properties	-	-	189,500	189,500
Total assets	-	-	189,500	189,500
FSREC Fund II - 2022				
<i>Assets</i>				
Investment properties	-	-	194,000	194,000
Total assets	-	-	194,000	194,000
FSREC Fund III - 2023				
<i>Assets</i>				
Investment property	-	-	89,000	89,000
Total assets	-	-	89,000	89,000
FSREC Fund III - 2022				
<i>Assets</i>				
Investment property	-	-	88,500	88,500
Total assets	-	-	88,500	88,500

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 financial assets and liabilities that are not measured at fair value on a recurring basis

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

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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17. 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.

	2023		2022	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
FSREC Fund II				
Cash and cash equivalents	2.31%	2,781	0.73%	3,455
Exposed debt not covered by swap instruments	3.54%	<u>(74,115)</u>	0.78%	<u>(73,715)</u>
Net exposure to cash flow interest rate risk		<u>(71,334)</u>		<u>(70,260)</u>

	2023		2022	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
FSREC Fund III				
Cash and cash equivalents	1.48%	1,251	0.04%	1,783
Exposed debt not covered by swap instruments	3.54%	<u>(37,826)</u>	0.78%	<u>(37,826)</u>
Net exposure to cash flow interest rate risk		<u>(36,575)</u>		<u>(36,043)</u>

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.

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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17. Financial instruments (continued)

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

	Basis points change	Basis points increase		Basis points decrease	
		Effect on profit \$'000	Effect on equity \$'000	Effect on profit \$'000	Effect on equity \$'000
FSREC Fund II - 2022					
Cash and cash equivalents	50	17	17	(50)	(17)
Exposed debt not covered by swap instruments	50	(368)	(368)	(50)	368
		<u>(351)</u>	<u>(351)</u>	<u>351</u>	<u>351</u>

	Basis points change	Basis points increase		Basis points decrease	
		Effect on profit \$'000	Effect on equity \$'000	Effect on profit \$'000	Effect on equity \$'000
FSREC Fund III - 2023					
Cash and cash equivalents	25	3	3	(25)	(3)
Exposed debt not covered by swap instruments	25	(95)	(95)	(25)	95
		<u>(92)</u>	<u>(92)</u>	<u>92</u>	<u>92</u>

	Basis points change	Basis points increase		Basis points decrease	
		Effect on profit \$'000	Effect on equity \$'000	Effect on profit \$'000	Effect on equity \$'000
FSREC Fund III - 2022					
Cash and cash equivalents	50	9	9	(50)	(9)
Exposed debt not covered by swap instruments	50	(189)	(189)	(50)	189
		<u>(180)</u>	<u>(180)</u>	<u>180</u>	<u>180</u>

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.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

17. Financial instruments (continued)

	FSREC Fund II		FSREC Fund III	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Summary of exposure				
Cash and cash equivalents	2,781	3,455	1,251	1,783
Trade and other receivables	565	422	2,848	689
Receivable from other members of the stapled group	-	-	65,982	67,071
	<u>3,346</u>	<u>3,877</u>	<u>70,081</u>	<u>69,543</u>

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 \$147,107 for FSREC Fund II and \$31,612 for FSREC Fund III (2022: \$283,303 for FSREC Fund II and \$174,645 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 I and FSREC Fund I, has long-term finance facilities available for drawdown totalling \$40,384,000 as at 30 June 2023. Refer to Note 12 for further information.

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 \$40.4 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 - 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
Total non-derivatives	<u>6,484</u>	<u>77,418</u>	-	<u>83,902</u>

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

17. Financial instruments (continued)

FSREC Fund II - 2022	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	137	-	-	137
Accrued liabilities	1,353	-	-	1,353
GST payable	236	-	-	236
Distributions payable	1,564	-	-	1,564
Borrowings	1,553	79,179	-	80,732
Total non-derivatives	4,843	79,179	-	84,022

FSREC Fund III - 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	63	-	-	63
Accrued liabilities	1,397	-	-	1,397
Distributions payable	447	-	-	447
Borrowings	1,757	39,559	-	41,316
Total non-derivatives	3,664	39,559	-	43,223

FSREC Fund III - 2022	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	86	-	-	86
Accrued liabilities	434	-	-	434
Distributions payable	654	-	-	654
Borrowings	1,101	40,687	-	41,788
Total non-derivatives	2,275	40,687	-	42,962

18. 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	Principal place of business / Country of incorporation	Ownership interest	
		2023 %	2022 %
Controlled entities of FSREC Fund II			
Australian Property Opportunities Trust II	Australia	100.00%	100.00%
APOT II No. 1	Australia	100.00%	100.00%
Controlled entities of FSREC Fund III			
Australian Property Opportunities Trust III	Australia	99.98%	99.98%
APOT III No. 1 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 2023

19. Parent entity information

During the year ended 30 June 2023, 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		FSREC Fund III	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
<i>Summarised statement of financial position</i>				
Current assets	1,034	1,821	425	1,389
Non-current assets	97,085	97,022	118,445	119,517
Total assets	98,119	98,843	118,870	120,906
Current liabilities	20,701	22,614	491	1,795
Total liabilities	20,701	22,614	491	1,795
Net assets	77,418	76,229	118,379	119,111
<i>Summarised statement of comprehensive income</i>				
Revenue	5,104	6,100	1,304	1,965
Expenses	(535)	(696)	(350)	(441)
Profit for the year	4,569	5,404	954	1,524
Other comprehensive income	-	-	-	-
Total comprehensive income	4,569	5,404	954	1,524
<i>Unitholders' equity in the parent entity</i>				
Issued capital	85,807	85,266	131,825	131,154
(Accumulated losses)/retained profits	(8,389)	(9,037)	(13,446)	(12,043)
Total equity	77,418	76,229	118,379	119,111

As at 30 June 2023, the parent entities of FSREC Fund II and FSREC Fund III disclose a deficiency of net current assets of \$19,666,918 and \$65,599, respectively. The Fund, which includes FSREC Fund II and FSREC Fund III, has long-term finance facilities available for drawdown totalling \$40,384,000 as at 30 June 2023. 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 (2022: nil).

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

20. Related party transactions

Key management personnel

i. Directors

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

E&P Investments Limited
(resigned effective 21 December 2022)

Stuart Nisbett
 Warwick Keneally
 Peter Shear

Equity Trustees Limited
(appointed effective 21 December 2022)

Philip D Gentry, Chairman
 Michael J O'Brien
 Russell W Beasley
 Mary A O'Connor
 David B Warren (appointed 6 March 2023)

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 FSREC Fund II and FSREC Fund III, directly or indirectly during the financial year.

Key management personnel held stapled securities in FSREC Fund II and FSREC Fund III at balance date, as follows:

	FSREC Fund II		FSREC Fund III	
	2023	2022	2023	2022
	Units	Units	Units	Units
Stuart Nisbett (resigned 21 December 2022)	-	1,239	-	1,239
Warwick Keneally (resigned 21 December 2022)	-	20,897	-	20,897
	-	22,136	-	22,136

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

FSREC Fund II and FSREC Fund III have 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.

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

Related party investments in FSREC Fund II and FSREC Fund III

As at 30 June 2023, Fort Street Real Estate Capital Pty Ltd held 873,842 units in FSREC Fund II and FSREC Fund III (2022: 873,842 units in FSREC Fund II and FSREC Fund III) representing 0.35% interest in the FSREC Fund II and FSREC Fund III (2022: 0.35%).

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 2023 was \$14,104 from FSREC Fund II and \$8,347 from FSREC Fund III (2022: \$20,118 from FSREC Fund II and \$12,655 from FSREC Fund III).

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the consolidated financial statements
30 June 2023

20. Related party transactions (continued)

Responsible Entity fee 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			
	2023	2023	2022	2022
	Transactions	Payable at	Transactions	Payable at
	\$	year-end	\$	year-end
		\$		\$
Former Responsible Entity fees*	234,905	-	474,353	40,729
Responsible Entity fees*	21,555	10,181	-	-
Trustee fees*	7,364	3,490	-	-
Investment Manager fees**	1,064,867	87,041	1,013,976	84,339
Property Manager fees**	473,185	44,508	486,974	41,423
Development Manager fees	7,704	88	109,652	7,577
Leasing Services fees	217,245	-	91,339	57,278
Legal and Consulting Services	-	-	12,526	-

	FSREC Fund III			
	2023	2023	2022	2022
	Transactions	Payable at	Transactions	Payable at
	\$	year-end	\$	year-end
		\$		\$
Former Responsible Entity fees*	110,347	-	248,076	18,763
Responsible Entity fees*	10,195	4,817	-	-
Trustee fees*	7,364	3,490	-	-
Investment Manager fees**	500,400	41,038	599,658	40,355
Disposal fees	-	-	1,497,676	-
Property Manager fees**	258,305	26,609	248,169	22,369
Development Manager fees	550	425	4,137	195
Leasing Services fees	119,493	-	93,289	73,639
Legal and Consulting services	-	-	12,526	-
Signage fees	-	-	4,823	-

*Responsible Entity and Trustee fees for the year ended 30 June 2023 totalling \$263,824 for FSREC Fund II and \$127,906 for FSREC Fund III (2022: \$474,353 for FSREC Fund II and \$248,076 for FSREC Fund III) are included in the statement of comprehensive income as Responsible Entity and trustee fees.

**Investment Manager fees and Property Manager fees for the year ended 30 June 2023 totalling \$1,538,052 for FSREC Fund II and \$758,705 for FSREC Fund III (2022: \$1,500,950 for FSREC Fund II and \$847,827 for FSREC Fund III) are included in the statement of comprehensive income as Management fees.

All other related party transactions are included in the statement of comprehensive income or capitalised as investment properties.

FSREC Fund II and FSREC Fund III did not hold any investments in its related parties during the year (2022: nil).

Refer to Note 22 of 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 2023

21. 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		FSREC Fund III	
	2023	2022	2023	2022
	\$	\$	\$	\$
Audit services - Deloitte Touche Tohmatsu				
Audit and review of the financial statements	79,850	72,765	39,250	39,885
Other services - Deloitte Touche Tohmatsu				
Taxation services	22,100	22,100	22,100	22,100
Other services	-	6,072	-	8,114
	22,100	28,172	22,100	30,214
Total	101,950	100,937	61,350	70,099

22. Capital commitments

As at 30 June 2023, FSREC Fund II had committed \$2,118,000 and FSREC Fund III \$430,000 in lease incentives arising from lease agreements (2022: \$1,139,500 for FSREC Fund II and \$375,000 for FSREC Fund III). There were no other capital commitments in respect of improvements to the existing properties.

23. Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

24. 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 2023 or on the results and cash flows of the Fund for the year ended on that date.

SIGNED REPORTS

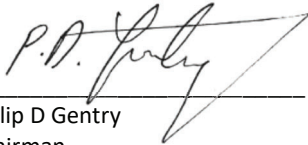


FSREC Property Fund
Directors' declaration
30 June 2023

In the opinion of the directors of the Responsible Entity:

- a.** The financial statements and notes set out on pages 8 to 61 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 2023 and its performance for the financial year 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.
- 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.



Philip D Gentry
Chairman

Melbourne
14 September 2023

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 report of Fort Street Real Estate Capital Fund I ('FSREC Fund I') and its subsidiaries ('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 2023, 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 a summary of significant accounting policies and other explanatory information and the directors' declaration.

In our opinion, the accompanying financial report 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 the FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 30 June 2023 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 the 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 report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III's annual financial report for the year ended 30 June 2023 but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the 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 the 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 Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 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 report, including the disclosures, and whether the financial report represents 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 report. We are responsible for the direction, supervision and performance of the 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, 14 September 2023

RESPONSIBLE ENTITY

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

