

# 360 CAPITAL OFFICE FUND

Annual Report  
FOR THE YEAR ENDED  
30 JUNE 2015



## **360 CAPITAL OFFICE FUND**

### **Annual Report For the year ended 30 June 2015**

360 Capital Office Fund comprises 360 Capital Office Fund (ARSN 106 453 196) and its controlled entities.

<b>Contents</b>	<b>Page</b>
Responsible Entity report	2
Auditor's independence declaration	8
Consolidated statement of profit or loss and other comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Consolidated notes to the annual report	13
Directors' declaration	46
Independent auditor's report	47
Unitholder information	49
Glossary	50
Corporate Directory	52

## **360 Capital Office Fund and its controlled entities**

### **Responsible Entity report**

#### **For the year ended 30 June 2015**

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The Directors of 360 Capital Investment Management Limited (“CIML”), the Responsible Entity, present their report together with the annual financial report of 360 Capital Office Fund (ARSN 106 453 196) and its controlled entities (“the Fund”) (ASX:TOF) for the year ended 30 June 2015.

#### **Directors**

The following persons were Directors of the Responsible Entity during the year and up to the date of this report, unless otherwise stated:

David van Aanholt (Chairman)

Tony Robert Pitt

William John Ballhausen

Graham Ephraim Lenzner

Andrew Graeme Moffat

#### **Principal activities**

During the year, the principal activity of the Fund was investment in commercial office properties within Australia. There have been no significant changes in the nature of the Fund’s activities since the date of the Fund’s establishment.

#### **Operating and financial review**

The statutory profit attributable to the unitholders of the Fund for the year ended 30 June 2015 was \$12.4 million (June 2014: \$56.4 million). The operating profit (profit before specific non-cash items and significant items) was \$14.0 million (June 2014: \$4.7 million profit).

Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (“AAS”) and represents the profit under AAS adjusted for specific non-cash items and significant items. The Directors consider operating profit to reflect the core earnings of the Fund and it is used as a guide to assess the Fund’s ability to pay distributions to unitholders.

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit. The operating profit information in the table has not been subject to any specific review procedures by the Fund’s auditor but has been extracted from Note 12: Segment reporting of the financial statements for the full year ended 30 June 2015, which have been subject to audit, refer to page 47 for the auditor’s report on the financial statements.

## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

For the year ended 30 June 2015

#### Operating and financial review (continued)

	30 June 2015 \$'000	30 June 2014 \$'000
<b>Profit attributable to the unitholders of the Fund</b>	<b>12,402</b>	56,399
<b>Specific non-cash items</b>		
Net gain on fair value of investment properties	(5,569)	(14,845)
Loss/(gain) on fair value of rental guarantee	2,414	(45)
Rental guarantee cash received	1,237	232
Net loss on derivative financial instruments	1,149	673
Amortisation of borrowing costs	262	265
Straight-lining of lease revenue	(17)	191
Amortisation of incentives and leasing fees	264	193
<b>Significant items</b>		
Net loss on sale property	1,023	-
Provision for outstanding duty	800	-
Debt forgiveness	-	(29,761)
Responsible Entity fee waiver	-	(8,627)
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>13,965</b>	4,675

The key financial highlights for the full year ended 30 June 2015 include:

- Profit attributable to the Unitholders of the Fund of \$12.4 million, representing 16.4 cents per unit (“cpu”);
- Operating profit of \$14.0 million representing 18.5 cpu;
- Distributions of \$12.8 million, representing 17.0 cpu and approximately 79% tax deferred;
- Gearing<sup>1</sup> has reduced to 28.7% from 31.9% as at 30 June 2014;
- Net tangible assets (“NTA”) of \$156.8 million (2014: \$166.3 million) representing \$2.14 per unit (2014: \$2.14); and
- The ASX closing price at 30 June 2015 of \$2.11 per unit reflected a discount to NTA of 1.4%, an annualised distribution per unit (“DPU”) yield of 8.1% and a total unitholder return of 15.4%.

The key operational highlights for the full year ended 30 June 2015 include:

- Restructured borrowings, reducing interest costs by 50 basis points (“bp”) to 4.1%;
- Approval to buy back up to 15.0% of the units on issue; the Fund had bought back a total of 4.4 million units (5.7% of total units on issue) by balance date which provided an accretive investment for the Fund;
- Post balance date the Department of Environment (“DoE”) tenant at 33 Allara Street, Canberra, ACT extended their lease for a period of 12 months to December 2016 at the current passing rental;
- Portfolio occupancy<sup>2</sup> of 98.5%;
- Increased WALE<sup>3</sup> to 4.6 years (2014: 4.2 years);
- Portfolio WACR<sup>4</sup> firmed to 7.8% (2014: 8.7%).
- Completed the sale of 52-56 Railway Parade, Burwood, NSW for \$80.0 million; and
- Acquired one new property Botanicca 8, 576 Swan Street, Richmond, VIC for \$46.5 million.

1. Gearing: Borrowings less cash divided by total assets less cash

2. Occupancy by area

3. WALE: Weighted average lease expiry by income

4. WACR: Weighted average capitalisation rate by value

## **360 Capital Office Fund and its controlled entities**

### **Responsible Entity report**

**For the year ended 30 June 2015**

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#### **Property portfolio**

The major focus of the Fund's leasing during the 2015 financial year was the renewal of the tenant, DoE at 33 Allara Street, Canberra, ACT. DoE's lease was due to expire in December 2015. Following the Fund's active lease management and prolonged negotiation with the tenant, post balance date the Fund agreed to a 12 month extension and a further 12 month option term (subject to a minimum 6 month notification) at the passing rental.

The extension removes all expiry within the 2016 financial year, with the first lease expiry in the Fund now not until December 2016 and provides certainty on the Fund's FY16 earnings, moving the expiry to a time in the market where limited new supply and stronger tenant demand is expected. The Fund maintains its focus on the longer term leasing strategy for the asset and continues to investigate the potential for alternate uses given the asset's strategic location in the Canberra central business district.

#### Acquisitions and Disposals

During the Initial Public Offering the Fund identified significant residential upside in its only non-core asset 52-56 Railway Parade, Burwood, NSW. Shortly after listing in April 2014, the Fund launched an on-market sales campaign to dispose of the asset. The Fund exchanged contracts in June 2014 for a sale price of \$80.0m, reflecting a premium of 32.7% or \$19.7 million over the June 2013 book value; subsequently settling the sale of the asset in October 2014. Surplus proceeds from the sale of the Burwood property were used to pay down debt.

The sale removed much of the Fund's leasing risk and on-going capital expenditure requirements whilst increasing the Fund's NTA. The sale provided the Fund with significant debt capacity to pursue higher quality suburban assets with superior income streams.

On 17 February 2015 the Fund settled the acquisition of Botanicca 8, 576 Swan Street, Richmond, VIC for \$46.5 million using the Fund's existing debt capacity. The acquisition provides the Fund with a newly constructed A-grade suburban asset in the Melbourne suburb of Richmond. The property is 100% leased to GE Capital Finance and Forever New Clothing with a WALE of 6.8 years as at 30 June 2015.

#### Property valuations

Independent revaluations were undertaken for three of the Fund's assets as at 31 March 2015, resulting in a \$10.6 million or 4.8% increase on prior book values. This valuation uplift was partially offset by a \$4.5 million negative revaluation of 33 Allara Street, Canberra, ACT as at 30 June 2015.

## **360 Capital Office Fund and its controlled entities**

### **Responsible Entity report**

**For the year ended 30 June 2015**

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#### **Capital management**

On 5 December 2014 Unitholders approved the on-market buy-back of up to 15.0% or 11.7 million of the units on issue. During December 2014 and January 2015, the Fund bought back 4.4 million units (5.7% of total units on issue) for a total consideration of \$9.1 million at the applicable daily market rate per unit. The buy-back remains open for a period of twelve months and the Fund will continue to monitor the trading price of the Fund and opportunistically acquire units.

In January 2015, the Fund reset the interest rate swap agreements with National Australia Bank ("NAB") and Bankwest and as an interim measure, and in order to reduce facility fees, the Fund elected to reduce its facility limit from \$100.0m to \$80.0m. The new swap agreements have an extended term from May 2017 to January 2020, a reduced total notional value, from \$86.5 million to \$70.0 million, and have reduced the Fund's all-in interest cost<sup>1</sup> from 4.6% to 4.1%. Cash and cash equivalents at the time of admission to the ASX in April 2014 have been utilised in line with the Fund's business objectives and the Product Disclosure Statement dated 24 March 2014.

#### **Summary and Outlook**

The operational strategy for the 2016 financial year is to continue to manage the portfolio to maximise unitholder returns and focus on opportunities for expanding and diversifying the Fund's asset base. The Fund is still subject to leasing risk which is currently being addressed as part of its leasing strategy to execute on the long-term asset plan at 33 Allara Street, Canberra, ACT. It remains a strategic objective of the Fund to achieving a greater relevance and entry into the S&P/ASX 300 AREIT index.

The Fund remains focused on long-term sustainable earnings and distribution growth through the acquisition and management of high quality, well leased suburban office assets. The ongoing value of assets may be influenced by changes in market conditions outside the Fund's control, the Fund's assets are well located within established office markets which may mitigate some of these factors.

1. All-in interest cost includes interest rate swaps, margin and line fees.

## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

#### For the year ended 30 June 2015

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#### Distributions

Distributions declared during the financial year ended 30 June 2015 are as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
June 2014 quarter paid 4.25 cpu on 24 July 2014	-	3,302
September 2014 quarter paid 4.25 cpu on 24 October 2014	3,302	-
December 2014 quarter paid 4.25 cpu on 23 January 2015	3,285	-
March 2015 quarter paid 4.25 cpu on 24 April 2015	3,115	-
June 2015 quarter paid 4.25 cpu on 24 July 2015	3,114	-
<b>Total distributions</b>	<b>12,816</b>	<b>3,302</b>

#### Fees, commissions or other charges by the Responsible Entity or Related Parties of the Responsible Entity

All fees payable to the Responsible Entity or its related parties are detailed in Note 25 to the financial statements.

#### Units held by the Responsible Entity or Related Parties of the Responsible Entity

As at 30 June 2015, related parties of the Responsible Entity held units in the Fund as detailed in Note 25 to the financial statements.

#### Buy-back arrangements

As detailed in the Fund constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from unitholders. On 5 December 2014, unitholders approved a resolution for an on-market buy-back of up to 15.0% of the current units on issue. During the financial year ended 30 June 2015, the Fund bought back 4.4 million units (5.7% of total units on issue) for a total consideration of \$9.1 million at the applicable daily market rate per unit. No buy-back arrangements occurred in the financial year ended 30 June 2014.

#### Units on issue

The total number of units on issue in the Fund as at 30 June 2015 was 73,279,751 (30 June 2014: 77,700,118). No units were issued during the year (2014: 77,500,000). During the year there was no consolidation of units, however in March 2014 a consolidation of units occurred at a ratio of 1:1000 reducing units on issue from 198,986,000 to 198,986.

#### Options

No options over issued units or interests in the Fund were granted during or since the end of the financial year and there were no options outstanding at the date of this report. The Directors and Executives of the Responsible Entity hold no options over interests in the Fund.

#### Environmental Issues

The Fund complied with all environmental regulations during the course of the financial year.

#### Significant changes in state of affairs

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the year under review other than those listed above or elsewhere in the Responsible Entity report.

#### Likely developments and expected results of operations

The Responsible Entity continues to implement the strategy of the Fund being to invest in commercial office properties within Australia. The Fund continues to seek to return income to unitholders through its distributions and capital growth through increasing the value of the underlying properties.

## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

For the year ended 30 June 2015

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#### Events subsequent to balance date

There have been no circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

#### Indemnification and insurance of Officers

During or since the end of the financial year, the Responsible Entity has paid insurance premiums to insure each of the aforementioned Directors as well as Officers of the Responsible Entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the as officers of the Responsible Entity, other than conduct involving a wilful breach of duty in relation to the Responsible Entity. The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer of the Responsible Entity.

To the extent permitted by law, the Responsible Entity has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

#### Non-audit services

Disclosed in Note 10 were the non-audit services provided by the Fund's auditors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

#### Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 8 and forms part of the Responsible Entity report for the year ended 30 June 2015.

#### Rounding of amounts

The Fund is an entity of the kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission ("ASIC"). In accordance with that Class Order, amounts in the annual financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

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



**Tony Robert Pitt**  
Director



**Graham Ephraim Lenzner**  
Director

Sydney  
19 August 2015





Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
ey.com/au

## Auditor's Independence Declaration to the Directors of 360 Capital Investment Management Limited as Responsible Entity for 360 Capital Office Fund

In relation to our audit of the financial report of 360 Capital Office Fund for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Mark Conroy  
Partner  
19 August 2015

**360 Capital Office Fund and its controlled entities**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2015**

		<b>30 June</b>	<b>30 June</b>
		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from continuing operations</b>			
Rental income	4	20,624	14,743
Finance revenue		119	75
<b>Total revenue from continuing operations</b>		<b>20,743</b>	<b>14,818</b>
<b>Other income</b>			
Net gain on fair value of investment properties	5	5,569	14,845
Debt forgiveness	6	-	29,761
Responsible Entity fee waiver	6	-	8,627
<b>Total other income</b>		<b>5,569</b>	<b>53,233</b>
<b>Total revenue from continuing operations and other income</b>		<b>26,312</b>	<b>68,051</b>
Investment property expenses		3,729	3,014
Management fees	25	1,486	1,043
Other administration expenses	7	1,317	370
Finance costs	8	2,792	6,597
Net loss/(gain) on fair value of rental guarantee		2,414	(45)
Net loss on derivative financial instruments	9	1,149	673
Net loss on sale of properties		1,023	-
<b>Net profit from continuing operations</b>		<b>12,402</b>	<b>56,399</b>
<b>Total comprehensive income for the year</b>		<b>12,402</b>	<b>56,399</b>
<b>Earnings per unit - basic and diluted - cents per unit</b>			
	11	<b>16.4</b>	349.8

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

**360 Capital Office Fund and its controlled entities****Consolidated statement of financial position****As at 30 June 2015**

		<b>30 June</b>	<b>30 June</b>
		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>			
Cash and cash equivalents	13	3,421	4,928
Receivables	14	988	473
Investment property – held for sale	15	-	80,000
<b>Total current assets</b>		<b>4,409</b>	<b>85,401</b>
<b>Non-current assets</b>			
Investment properties	16	223,881	167,630
Rental guarantee	16	2,219	5,870
<b>Total non-current assets</b>		<b>226,100</b>	<b>173,500</b>
<b>Total assets</b>		<b>230,509</b>	<b>258,901</b>
<b>Current liabilities</b>			
Trade and other payables	17	2,391	2,433
Distribution payable	18	3,114	3,302
<b>Total current liabilities</b>		<b>5,505</b>	<b>5,735</b>
<b>Non-current liabilities</b>			
Borrowings	19	67,983	85,902
Derivative financial instruments	20	195	919
<b>Total non-current liabilities</b>		<b>68,178</b>	<b>86,821</b>
<b>Total liabilities</b>		<b>73,683</b>	<b>92,556</b>
<b>Net assets</b>		<b>156,826</b>	<b>166,345</b>
<b>Equity</b>			
Issued units	21	329,817	338,922
Accumulated losses		(172,991)	(172,577)
<b>Total equity</b>		<b>156,826</b>	<b>166,345</b>

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

**360 Capital Office Fund and its controlled entities**  
**Consolidated statement of changes in equity**  
**For the year ended 30 June 2015**

	Note	Issued units \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 1 July 2014</b>		338,922	(172,577)	166,345
Total comprehensive income for the year		-	12,402	12,402
<b>Transactions with unitholders in their capacity as unitholders</b>				
Unit buy-back	21	(9,105)	-	(9,105)
Distributions paid and payable	3	-	(12,816)	(12,816)
		(9,105)	(12,816)	(21,921)
<b>Balance at 30 June 2015</b>		<b>329,817</b>	<b>(172,991)</b>	<b>156,826</b>
<hr/>				
<b>Balance at 1 July 2013</b>		189,289	(225,674)	(36,385)
Total comprehensive income for the year		-	56,399	56,399
<b>Transactions with unitholders in their capacity as unitholders</b>				
Units issued		155,000	-	155,000
Equity raising cost		(5,367)	-	(5,367)
Distributions paid and payable		-	(3,302)	(3,302)
		149,633	(3,302)	146,331
<b>Balance at 30 June 2014</b>		<b>338,922</b>	<b>(172,577)</b>	<b>166,345</b>

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

**360 Capital Office Fund and its controlled entities****Consolidated statement of cash flows****For the year ended 30 June 2015**

		<b>30 June</b>	<b>30 June</b>
		<b>2015</b>	<b>2014</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers (inclusive of GST)		23,690	16,086
Cash payments to suppliers (inclusive of GST)		(8,503)	(5,708)
Finance revenue		119	75
Finance expenses		(2,600)	(6,032)
<b>Net cash inflows from operating activities</b>	<b>23</b>	<b>12,706</b>	<b>4,421</b>
<b>Cash flows from investing activities</b>			
Payments for additions to investment properties		(1,641)	(665)
Payments of leasing fees and incentives		(113)	(552)
Payments for acquisition of investment properties		(49,299)	(143,298)
Proceeds from sale of investment properties		79,003	-
<b>Net cash inflows/(outflows) from investing activities</b>		<b>27,950</b>	<b>(144,515)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		59,972	86,580
Repayment of borrowings		(78,052)	(92,853)
Proceeds from issue of equity		-	155,000
Payment of transaction costs to issue capital		-	(5,453)
Payments of refinancing costs		(1,974)	(719)
Payment of unit buyback		(9,105)	-
Distributions paid to unitholders		(13,004)	-
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(42,163)</b>	<b>142,555</b>
Net (decrease)/increase in cash and cash equivalents		(1,507)	2,461
Cash and cash equivalents at the beginning of the year		4,928	2,467
<b>Cash and cash equivalents at the end of the year</b>	<b>13</b>	<b>3,421</b>	<b>4,928</b>

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

## **360 Capital Office Fund and its controlled entities**

### **Notes to the financial report**

**For the year ended 30 June 2015**

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#### **Note 1: Statement of significant accounting policies**

##### **a) Reporting entity**

The general purpose financial statements are for the entity 360 Capital Office Fund and its controlled entities (“the Fund”). The Fund is a listed Fund established and domiciled in Australia. The Responsible Entity of the Fund is 360 Capital Investment Management Limited. The registered office and the principal place of business is Level 8, 56 Pitt Street, Sydney NSW 2000 Australia. The nature of operations and principal activities of the Fund are disclosed in the Responsible Entity report.

The financial report was authorised for issue by the Board on 19 August 2015.

The principal activities of the Fund are disclosed in the Responsible Entity report and the principal accounting policies adopted in the preparation of the financial report are set out below.

##### **b) Statement of compliance**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (“AAS”) adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001.

International Financial Reporting Standards (“IFRS”) form the basis of Australian Accounting Standards (including Australian Interpretations) adopted by the AASB, being Australian equivalents to IFRS (“AIFRS”). The financial report complies with IFRS and interpretations adopted by the International Accounting Standards Board.

##### **c) Basis of preparation**

###### Basis of preparation

360 Capital Office Fund and its controlled entities are for-profit entities for the purpose of preparing the financial report.

The financial report has been prepared on an accruals basis and on the historical cost basis except for investment properties, rental guarantees, non-current assets held for sale and derivative financial instruments, which are stated at their fair value.

The financial report has been prepared on a going concern basis. The Directors of the Fund note that the Fund is in a net current liabilities position of \$1.1 million due to operational working capital management procedures in relation to the holding of cash assets. The Fund has minimal cash and cash equivalents as it is the policy of the Fund to use surplus cash to repay debt. The Fund has the ability to drawdown funds when needed, having available headroom in the Fund’s debt facility of \$11.5 million at balance date.

The financial report is presented in Australian dollars.

The Fund is an entity of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Responsible Entity’s report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### c) Basis of preparation (continued)

##### Changes in accounting policy

As a result of new or revised accounting standards which became effective for the financial reporting year commencing 1 July 2014, the Fund has changed some of its accounting policies. The affected policies and standards that are applicable to the Fund are:

- AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities;
- AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets;
- AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities;
- AASB 2014-1 Amendment to Australian Accounting Standards - 2010-2012 Cycle;
- AASB 2014-1 Amendment to Australian Accounting Standards - 2011-2013 Cycle; and
- AASB 1031 – Materiality.

For the financial year, the adoption of these amended standards has no material impact on the financial statements of the Fund.

##### Critical accounting estimates

The preparation of a financial report in conformity with AAS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of AAS that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are disclosed in Note 1(u).

The accounting policies set out below have been applied consistently to all years presented in this financial report. The accounting policies have been applied consistently by all entities in the Fund.

Certain new or amended AAS have been published that are not mandatory for this reporting period. Based on management's assessment, the recently issued or amended Accounting Standards are not expected to have a significant impact on the amounts recognised or disclosures made in this financial report when restated for the application of the new or amended Accounting Standards.

The Fund has applied the amendments contained in the Corporations Amendment (Corporate Reporting Reform) Bill 2010 in the preparation of this financial report which allows for removing the requirement in consolidated financial statements to include full parent entity information. A note containing information about the Parent Entity has been included at Note 26.

## **360 Capital Office Fund and its controlled entities**

### **Notes to the financial report**

**For the year ended 30 June 2015**

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#### **d) Basis of consolidation**

##### Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Fund as at 30 June 2015 and the results of all subsidiaries for the year then ended.

Subsidiaries are entities controlled by the Fund in accordance with AASB10. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

The Fund uses the purchase method of accounting to account for the acquisition of subsidiaries. Intercompany transactions, balances and recognised gains on transactions between Fund entities 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.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity, less any impairment.

#### **e) Segment reporting**

Segment information is presented in respect of the Fund's operating segments, which are the primary basis of segment reporting. An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. The primary segments are based on the Fund's management and internal reporting structure.

Operating segments are determined based on the information which is regularly reviewed by the Managing Director, who is the Chief Operating Decision Maker within the Fund.

#### **f) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of GST paid. Revenue is recognised for the major business activities as follows:

##### Rental from investment properties

Rental revenue from investment properties is recognised on a straight-line basis over the lease term where leases have fixed increments, otherwise on an accruals basis. Rental revenue not received at reporting date is reflected in the statement of financial position as a receivable or if paid in advance, a current liability. Lease incentives granted are recognised over the lease term on a straight-line basis as a reduction of rental revenue.

##### Finance Revenue

Interest income is recognised on a time proportion basis using the effective interest method. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

##### Other income

Other income is recognised when the right to receive the revenue has been established.



## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### g) Finance costs

Finance costs which include interest and amortised borrowing costs are recognised using the effective interest rate applicable to the financial liability.

#### h) Income tax

Under current Australian income tax legislation, the Fund is not liable for income tax provided its taxable income and taxable capital gains are fully distributed to unitholders each year.

#### i) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### k) Receivables

Receivables are recognised initially at fair value and subsequently at amortised cost. The payment terms are usually 30 days after the invoice is raised. They are classified as current assets except where the maturity is greater than 12 months after the reporting date in which case they are classified as non-current.

Amounts not recoverable are assessed at each reporting date. Indicators that an amount is not recoverable include where there is objective evidence of significant financial difficulties, debtor bankruptcy, financial reorganisation or default in payment. Any allowances for non-recoverable receivables are recognised in a separate allowance account. Any bad debts which have previously been provided for are eliminated against the allowance account. In all other cases bad debts are written off directly to the statement of profit or loss.

#### l) Financial instruments

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### Receivables

Receivables are recognised initially at fair value and subsequently at amortised cost. More information on the treatment is provided in Note 1(k).

##### Derivative financial instruments

The Fund uses derivative financial instruments to hedge its risks associated with interest rate fluctuations. The significant interest rate risk arises from bank loans. The Fund does not use derivative financial instruments for speculative purposes.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### **l) Financial instruments (continued)**

Derivatives are initially measured at fair value on the date a derivative contract is entered into and are subsequently measured at fair value at each reporting date. The net fair value of all derivative financial instruments outstanding at the Balance date is recognised in the statement of financial position as either a financial asset or liability.

The Directors of the Responsible Entity have decided not to use the option in AASB 139: Financial Instruments: Recognition and Measurement to classify the interest rate swaps as cash flow hedges and accordingly these are classified as at fair value through profit or loss, and the changes in the fair value of the derivative financial instruments are recognised in the statement of profit or loss.

The fair value of interest rate swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the balance date, taking into account current and future interest rates.

#### Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out in Notes 1(p) to 1(s)

#### Impairment

The Fund assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

#### **m) Assets held for sale**

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. The assets must meet the following criteria:

- the asset is available for immediate sale in its present condition and is highly probable;
- an active program to locate a buyer and complete a sale must have been initiated;
- the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale should be completed within 12 months from the date of classification.

Immediately before applying the classification as held for sale, the measurement of the assets is brought up to date in accordance with applicable accounting standards.

Investment properties which are classified as held for sale are carried at fair value as the measurement provisions of AASB 5 Non-current Assets Held for Sale and Discontinuing Operations do not apply to investment properties. This represents the amount that would be received upon sale of the asset between market participants at balance date in accordance with Australian Valuation Standards.

Impairment losses determined at the time of initial classification of the non-current asset as held for sale are included in the statement of profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

## **360 Capital Office Fund and its controlled entities**

### **Notes to the financial report**

**For the year ended 30 June 2015**

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#### **n) Investment properties**

Investment properties are properties which are held for the purpose of producing rental income, capital appreciation, or both. Investment properties are initially recognised at cost including any acquisition costs. Investment properties are subsequently stated at fair value at each balance date with any gain or loss arising from a change in fair value recognised in the statement of profit or loss in the year. An external, independent valuer with appropriately recognised professional qualification and recent experience in the location and category of the property being valued, values the individual properties when considered appropriate as determined by management in accordance with a Board approved valuation policy. Valuation methods used to determine the fair value include market sales comparison, discounted cash flow and capitalisation rate. The fair value for a property may be determined using a combination of these and other valuation methods.

These external valuations are taken into consideration when determining the fair value of the investment properties. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without prejudice.

#### **o) Rental guarantee**

The rental guarantee is measured as the present value of the expected future cash flows under the guarantee arrangements.

#### **p) Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Fund prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

#### **q) Borrowings**

Interest bearing loans and overdrafts are initially measured at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss over the period of the borrowings using the effective interest rate method.

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

Transaction costs are amortised over the term of the borrowing and the balance of transaction costs are amortised immediately upon a borrowing being substantially renegotiated or repaid in full.

#### **r) Provisions**

A provision is recognised in the statement of financial position when the Fund has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability.

#### Distributions

A provision for distributions payable is recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors of the Responsible Entity on or before the end of the financial period, but not distributed at balance date.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### s) Issued Units

The Fund issues units which have a limited life under the Fund's constitution and are classified as equity in accordance with *AASB 132 Financial Instruments: Presentation* as amended by *AASB 2009-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation*. Units are recognised at initial consideration less any costs relating to the issue.

Should the terms or conditions of the units change such that they no longer comply with the criteria for classification as equity in the revised AASB 132, the units would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the liability at the date of reclassification would be recognised in equity.

Where the Fund buys back any of its units from unitholders, the consideration paid, including any directly attributable incremental costs are recognised as a reduction in equity attributable to the Fund's unitholders.

#### t) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

#### u) Critical judgements and significant accounting estimates

The preparation of the financial report requires the Responsible Entity to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities are:

##### Valuation of investment properties

The Directors ascertain the fair value of investment properties after having regard to independent valuations which are undertaken at least once in a two year period. These valuations are determined through the use of the properties' lease profile and direct market comparison and include the valuers' assessments of appropriate capitalisation rates and discounted cash flow rates. The valuations are in accordance with accounting policy note 1(n).

##### Derivative financial instruments

The Directors of the Responsible Entity have decided not to use the option in AASB 139: Financial Instruments: Recognition and Measurement to classify the interest rate swaps as cash flow hedges and accordingly these are classified as at fair value through profit or loss, and the changes in the fair value of the derivative financial instruments are recognised in the statement of profit or loss and other comprehensive income.

The fair value of interest rate swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the balance date, taking into account current and future interest rates.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### v) Accounting standards issued but not yet effective

The following new accounting standards, amendments to standards and interpretations have been issued, but are not mandatory as at 30 June 2015. They are available for early adoption, but have not been applied in preparing these financial statements. The Fund plans to adopt these standards on the effective date. The impact of these new standards and interpretations are as follows:

- AASB 9 *Financial Instruments (Effective January 1, 2018)*. This standard includes requirements to simplify the approach for the classification and measurement of financial instruments. This is not expected to materially impact the Fund's financial statements
- AASB 15 *Revenue from Contracts with Customers (Effective January 1, 2017)*. This standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. At this stage we are currently assessing the impact on the Fund's financial report.

In addition to those above, the following amendments have been issued due to amendments of related standards and the annual improvements cycles:

- AASB 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation (Effective January 1, 2016)*
- AASB 2014-9 *Equity method in Separate Financial Statements (Effective April 1, 2016)*
- AASB 2015-1 *Annual Improvements to Australian Accounting Standards – 2012-2014 Cycle (Effective April 1, 2016)*
- AASB 2015-2 *Disclosure Initiative : Amendments to AASB 101 (Effective April 1, 2016)*
- AASB 2015-3 *Withdrawal of AASB 1031 Materiality (Effective April 1, 2016)*
- AASB 2015-5 *Investment Entities: Applying the Consolidation Exception (Effective April 1, 2016)*

The recently issued amendments are not expected to have a significant impact on the amounts recognised in the financial statements at the effective date.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### Note 2: Financial risk management

##### Overview

The Fund's activities expose it to various types of financial risks including credit risk, liquidity risk, and market risk. The Board of Directors of the Responsible Entity has responsibility for the establishment and oversight of the risk management framework ensuring the effective management of risk.

The Board has established risk management principles and policies and monitor their implementation. Policies are established to identify and analyse the financial risks faced by the Fund, to set appropriate risk limits and controls, and monitor the risks and adherence to limits. The Board meets regularly to review risk management policies and systems and ensure they reflect changes in market conditions and the Fund's activities.

The nature and extent of the financial instruments and the risk management policies employed by the Fund are discussed in this section.

##### a) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Fund is exposed to credit risk through the financial assets listed in the table below. The table also details the maximum exposure to credit risk for each class of financial instrument.

	<b>30 June</b>	<b>30 June</b>
	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	3,421	4,928
Receivables	988	473
<b>Total</b>	<b>4,409</b>	<b>5,401</b>

The Fund manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. At reporting date, there are no issues with the credit quality of financial assets that are neither past due nor impaired, and all amounts are expected to be received in full.

##### b) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Board has a policy of prudent liquidity risk management ensuring that it will always have sufficient liquidity 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 Fund monitors its exposure to liquidity by ensuring that there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due.

The maturities of financial liabilities at reporting date based on the contractual terms of each liability in place at reporting date have been disclosed in a table in Note 22. There are no financial liabilities where the fair value would be materially different from the amortised cost. The amounts disclosed are based on undiscounted cash flows.

## **360 Capital Office Fund and its controlled entities**

### **Notes to the financial report**

**For the year ended 30 June 2015**

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#### **Note 2: Financial risk management (continued)**

##### **c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Fund's market risk is managed in accordance with the investment guidelines as outlined in the Fund's Product Disclosure Statement.

##### Interest rate risk

The Fund's interest rate risk arises from long term borrowings and cash balances. The Fund manages this exposure by fixing its interest rates on borrowings using interest rate swaps.

The potential impact of a change in interest rates by +/-1% on profit and equity has been disclosed in a table in Note 22.

##### Other markets risk

360 Capital Office Fund does not have any material exposure to any other market risks such as currency risk or equity price risk.

##### **d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The Fund uses a variety of methods to calculate the value of financial instruments and makes assumptions that are based on market conditions existing at each balance date. The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments.

##### **e) Capital Management**

Under the direction of the Board, the Fund manages its capital structure to safeguard the ability of the Fund to continue as a going concern while maximising the return to unitholders through the optimisation of net debt and total equity balances.

In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, issue new units, purchase the Fund's own units, or sell assets to reduce debt.

There were no changes in the Fund's approach to capital management during the year.

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2015

#### Note 3: Distributions

Distributions declared during the financial year ended 30 June 2015 are as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
June 2014 quarter paid 4.25 cpu on 24 July 2014	-	3,302
September 2014 quarter paid 4.25 cpu on 24 October 2014	3,302	-
December 2014 quarter paid 4.25 cpu on 23 January 2015	3,285	-
March 2015 quarter paid 4.25 cpu on 24 April 2015	3,115	-
June 2015 quarter paid 4.25 cpu on 24 July 2015	3,114	-
<b>Total distributions</b>	<b>12,816</b>	<b>3,302</b>

#### Note 4: Rental income

	\$'000	\$'000
Rent	20,871	15,127
Straight-lining of lease revenue	17	(191)
Amortisation of incentives and leasing fees	(264)	(193)
	<b>20,624</b>	<b>14,743</b>

#### Note 5: Net gain on fair value of investment properties

		30 June 2015 \$'000	30 June 2014 \$'000
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Fair value (loss)/gain of non-current assets held for sale	15	(641)	19,332
Fair value gain/(loss) of investment properties	16	6,210	(4,487)
		<b>5,569</b>	<b>14,845</b>

#### Note 6: Debt forgiveness and Responsible entity fee waiver

In the financial year ended 30 June 2015, no outstanding debts were forgiven in favour of the Fund. In the prior financial year, upon listing of the Fund, the 360 Capital Developments Income Fund ("DIF") removed its entitlement to a portion of debt owing from the 360 Capital Office Fund amounting to \$29,761,144 in accordance with a liquidity proposal. Furthermore, 360 Capital RE Limited, the Responsible Entity at the time removed its entitlement to outstanding exit and management fees resulting in a gain of \$8,626,937.

#### Note 7: Other administration expenses

	30 June 2015 \$'000	30 June 2014 \$'000
Administration expenses	517	370
Provision for outstanding duty	800	-
	<b>1,317</b>	<b>370</b>



### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2015

#### Note 8: Finance costs

	30 June 2015 \$'000	30 June 2014 \$'000
Interest paid or payable on debt facilities	2,530	6,332
Amortisation of capitalised borrowing costs on debt facilities	262	265
	<b>2,792</b>	<b>6,597</b>

#### Note 9: Net loss on derivative financial instruments

	30 June 2015 \$'000	30 June 2014 \$'000
Net loss on fair value of derivative financial instruments	1,005	673
Loss on termination of derivative financial instruments	144	-
	<b>1,149</b>	<b>673</b>

On 16 January 2015, the Fund reset its interest rate swap agreements with Bankwest and National Australia Bank ("NAB"). The new terms have an extended expiry from May 2017 to January 2020, a reduced total notional value to \$70 million and a reduced blended fixed rate to 2.64% (excluding any margin and line fees).

#### Note 10: Auditors' remuneration

	\$	\$
<u>Audit services – EY</u>		
Audit services	60,712	54,473
Other assurance services	-	108,150
Audit of compliance plan	2,800	2,800
	<b>63,512</b>	<b>165,423</b>
<u>Other services – EY</u>		
Taxation compliance services	19,950	69,150
	<b>83,462</b>	<b>234,573</b>

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2015

#### Note 11: Earnings per unit

	30 June 2015	30 June 2014
	¢	¢
Basic and diluted earnings per unit	16.4	349.8
	<b>\$'000</b>	<b>\$'000</b>
<b>Basic and diluted earnings</b>		
Net profit attributable to unitholders	12,402	56,399
	<b>000's</b>	<b>000's</b>
<b>Weighted average number of units</b>		
Weighted average number of units	75,590	16,124

#### Note 12: Segment reporting

The Fund invests solely in office properties within Australia.

The Chief Operating Decision Maker being, the Managing Director of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level. As a result, the Fund has only one segment. Operating profit is a financial measure which is not prescribed by AAS and represents the profit under AAS adjusted for specific non-cash items and other significant items which management consider to reflect the core earnings of the Fund and is used as a guide to assess the Fund's ability to pay distributions to unitholders.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 12: Segment reporting (continued)

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit.

	30 June 2015 \$'000	30 June 2014 \$'000
<b>Profit attributable to the unitholders of the Fund</b>	<b>12,402</b>	56,399
<b>Specific non-cash items</b>		
Net loss on fair value of investment properties	(5,569)	(14,845)
Loss/(gain) on fair value of rental guarantee	2,414	(45)
Rental guarantee cash received <sup>1</sup>	1,237	232
Net loss on derivative financial instruments	1,149	673
Amortisation of borrowing costs	262	265
Straight-lining of lease revenue	(17)	191
Amortisation of incentives and leasing fees	264	193
<b>Significant items</b>		
Net loss on sale property	1,023	-
Provision for outstanding duty	800	-
Debt forgiveness	-	(29,761)
Responsible Entity fee waiver	-	(8,627)
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>13,965</b>	4,675
Weighted average number of units ('000)	75,590	16,124
<b>Operating profit/(loss) per unit (profit before specific non-cash and significant items) (EPU) – cents</b>	<b>18.5</b>	29.0

1. Cash received in relation to the rental guarantee is included for purposes of reporting operating profit.

#### Note 13: Cash and cash equivalents

	30 June 2015 \$'000	30 June 2014 \$'000
Cash at bank	3,421	4,928
Cash and cash equivalents in the statement of cash flows	<b>3,421</b>	4,928

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 14: Receivables

	30 June 2015 \$'000	30 June 2014 \$'000
<b>Current</b>		
Trade receivables	226	127
Prepayments and other receivables	762	346
	<b>988</b>	<b>473</b>

#### a) Bad and doubtful trade receivables

During the year, the Fund incurred \$58,914 (2014: \$69,136) in respect of writing off and provisioning for bad and doubtful trade receivables. At balance date the provision for bad and doubtful debts was \$21,590 (2014: \$69,136).

#### b) Fair values

The receivables are carried at amounts that approximate their fair value.

#### c) Credit risk

The Fund reviews all receivables for impairment. Any receivables which are doubtful have been provided for.

The ageing of trade receivables at the reporting date was as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
Current	217	8
1 to 3 months	23	147
More than 3 months	8	41
	<b>248</b>	<b>196</b>

As at 30 June 2015, trade receivables of \$9,690 (2014: \$133,516) were past due but not provisioned for.

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2015

#### Note 15: Investment property - held for sale

	<b>30 June 2015 \$'000</b>	<b>30 June 2014 \$'000</b>
52-56 Railway Parade, Burwood, NSW	-	80,000
	-	80,000
Less: lease income receivable	-	(1,164)
	-	78,836

Assets are classified as held for sale when it is considered highly probable that they would be sold within 12 months of the balance date.

The Fund settled the sale of 52-56 Railway Parade, Burwood, for \$80.0 million on 2 October 2014 with the majority of the net proceeds being used to reduce debt.

#### Movement during the year:

	<b>Notes</b>	<b>30 June 2015 \$'000</b>	<b>30 June 2014 \$'000</b>
Opening balance as at 1 July		80,000	-
Transfer from investment properties	16	-	60,300
Additions to investment properties		672	626
Straight-lining of lease revenue		1	(610)
New incentives and leasing fees		10	502
Amortisation of incentives and leasing fees		(42)	(150)
Net (loss)/gain on fair value of investment properties		(641)	19,332
Disposal		(80,000)	-
Closing balance		-	80,000

**360 Capital Office Fund and its controlled entities**  
**Notes to the financial report**  
**For the year ended 30 June 2015**

**Note 16: Investment properties**

	Date of acquisition	Book value		Capitalisation rate		Discount rate		Date of last external valuation	Last external valuation \$'000
		30 Jun 2015 \$'000	30 Jun 2014 \$'000	30 Jun 2015 %	30 Jun 2014 %	30 Jun 2015 %	30 Jun 2014 %		
<b>Investment property valuations</b>									
485 Kingsford Smith Drive, Hamilton Harbour, QLD	Apr 14	<b>70,000</b>	64,000	<b>7.42</b>	8.00	<b>8.75</b>	8.75	Mar 15	70,000
154 Melbourne St, South Brisbane, QLD	Apr 14	<b>77,500</b>	75,000	<b>7.50</b>	8.00	<b>8.50</b>	8.75	Mar 15	77,500
33 Allara St, Canberra, ACT	Dec 05	<b>30,000</b>	34,500	<b>10.25</b>	10.25	<b>11.5</b>	11.50	May 14	34,500
Botanica 8, 576 Swan Street, Richmond, VIC	Feb 15	<b>48,600</b>	-	<b>7.25</b>	-	<b>8.25</b>	-	Mar 15	48,600
<b>Total</b>		<b>226,100</b>	173,500						<b>230,600</b>
<b>Comprises:</b>									
Fair value of Rental guarantee receivable <sup>1</sup>		<b>2,219</b>	5,870						
Investment Properties		<b>223,881</b>	167,630						
<b>Total</b>		<b>226,100</b>	173,500						
Less lease income receivable		(5,050)	(1,503)						
		221,050	171,997						

<sup>1</sup> The rental guarantee is measured as the present value of the expected future cash flows under the guarantee arrangements. The rental guarantee has been capitalised and relates to the agreement with the vendor of the property at 485 Kingsford Smith Drive, Hamilton Harbour, QLD.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 16: Investment properties (continued)

	30 June 2015 \$'000	30 June 2014 \$'000
<b>Movement during the year:</b>		
Opening balance as at 1 July	173,500	94,800
Transfer to investment property held for sale	-	(60,300)
Additions to investment properties	845	-
Acquisitions	49,299	143,298
Net gain /(loss) on fair value of investment properties	6,210	(4,487)
Straight-lining of lease revenue	16	419
(Loss)/gain on fair value of rental guarantee	(2,414)	45
Rental guarantee cash received	(1,237)	(232)
New incentives and leasing fees	103	-
Amortisation of incentives and leasing fees	(222)	(43)
Closing balance	<b>226,100</b>	173,500

On 17 February 2015, the Fund acquired Botanicca 8, 576 Swan Street, Richmond, VIC for \$49.3 million including stamp duty and legal costs. This was settled using the Fund's existing debt capacity.

#### a) Valuation basis

Investment properties are carried at fair value. Fair value of the properties is determined by the Directors, having regard to the most recent independent valuations prepared by valuers with appropriately recognised professional qualification and recent experience in the location and category of the property being valued. Valuation methods used to determine the fair value include market sales comparison, discounted cash flow and capitalisation rate. The fair value for a property may be determined using a combination of these and other valuation methods. As discounted cash flow and capitalisation rate use unobservable inputs, the investment property is categorised as Level 3 under the Fair Value Hierarchy. These inputs include net passing rent, gross market rent and net market rent as set out in the sensitivity matrix in Note 16(b). For all investment properties current use reflects highest and best use.

**Market sales comparison:** The sales comparison approach utilises recent sales of comparable properties, adjusted for any differences including the nature, location and lease profile, to indicate the fair value of a property. Where there is a lack of recent sales, activity adjustments are made from previous comparable sales to reflect changes in economic conditions.

**Discounted cash flow:** Projections derived from contracted rents, market rents, operating costs, lease incentives, lease fees, capital expenditure and future income on vacant space are discounted at a rate to arrive at a value. The discount rate is a market assessment of the risk associated with the cash flows, and the nature, location and tenancy profile of the property absolute to returns from alternative investments, CPI rates and liquidity risk. It is assumed that the property is sold at the end of the investment period at terminal value. The terminal value is determined by using an appropriate capitalisation rate on termination ("termination yield").

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 16: Investment properties (continued)

**Capitalisation rate:** An assessment is made of fully leased net income based on contracted rents, market rents, operating costs and future income on vacant space. The adopted fully leased net income is capitalised in perpetuity from the valuation date at an appropriate capitalisation rate. The capitalisation rate reflects the nature, location and tenancy profile of the property together with current market investment criteria, as evidenced by current sales evidence. Various adjustments, including incentives, capitalised expenditure and reversions to market rent are made to arrive at the property value.

#### b) Sensitivity information

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent	Increase	Decrease
Gross market rent	Increase	Decrease
Net market rent	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase

Capitalisation and discount rate are considered significant Level 3 inputs. Refer to Note 22 for further information.

*Net passing rent* is the contracted amount for which a property or space within a property is leased. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

*Gross market rent* is the estimated total amount for which a tenancy within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion.

*Net market rent* is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

#### c) Leases as lessor

The investment properties (including investment properties classified as held for sale) are leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments under non-cancellable operating leases of the investment properties not recognised in the financial statements are receivable as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
No later than 12 months	16,370	21,643
Between 12 months and five years	43,845	49,589
Greater than five years	25,028	24,534
	<b>85,243</b>	<b>95,766</b>



**360 Capital Office Fund and its controlled entities****Notes to the financial report****For the year ended 30 June 2015****Note 17: Trade and other payables**

	<b>30 June 2015 \$'000</b>	<b>30 June 2014 \$'000</b>
Trade payables and accruals	2,391	2,433
	<b>2,391</b>	<b>2,433</b>

All trade and other payables are expected to be settled within 12 months.

**Note 18: Distribution payable**

	<b>\$'000</b>	<b>\$'000</b>
Distribution payable	3,114	3,302

The distribution payable represents the June 2015 quarter distribution (4.25 cpu) which was paid on 24 July 2015.

**Note 19: Borrowings**

	<b>\$'000</b>	<b>\$'000</b>
<b>Non-current</b>		
Borrowings - secured	68,500	86,580
Capitalised borrowing costs	(517)	(678)
	<b>67,983</b>	<b>85,902</b>
<b>Borrowings - secured</b>		
Total facility limit	80,000	100,000
Used at end of reporting date	68,500	86,580
<b>Unused at end of reporting date</b>	<b>11,500</b>	<b>13,420</b>

**Movement during the year:**

Opening balance	86,580	122,615
Repayment of borrowings from Bank	(78,052)	(45,667)
Capitalised interest on related party debt (DIF)	-	3,588
Repayment of related party debt (DIF)	-	(50,775)
Related party borrowings forgiven under liquidity proposal (DIF)	-	(29,761)
New borrowings	59,972	86,580
Closing balance	<b>68,500</b>	<b>86,580</b>

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### Note 19: Borrowings (continued)

##### a) Loan facilities summary

On 22 January 2015, the Fund in agreement with Bankwest and NAB, decreased the syndicated debt facility limit from \$100 million to \$80 million.

##### b) Funding Covenants

All loan facilities are subject to standard commercial covenants consistent with the type of loan including Loan Value Ratio, Interest Cover Ratio & Negative Variations. At the date of this report, the Fund complies with all debt covenants.

As at 30 June 2015 the debt facility was drawn to \$68.5 million, which represents a LVR of 29.7% based on the latest external valuations adopted, which complied with the bank covenant of less than 50%.

As at 30 June 2015 the interest cover ratio was calculated to be 6.5 times, which complied with the bank covenant of nothing less than 2.0 times.

##### c) Assets pledged as security

The loans are secured by a registered first mortgage over the investment property.

The carrying amounts of assets pledged as security are:

	Notes	30 June 2015 \$'000	30 June 2014 \$'000
Investment properties held for sale	15	-	80,000
Investment properties	16	226,100	173,500
		<b>226,100</b>	<b>253,500</b>

#### Note 20: Derivative financial Instruments

	\$'000	\$'000
<b>Non-current liabilities</b>		
Interest rate swap contracts - fair value	195	919
<b>Total</b>	<b>195</b>	<b>919</b>

The Fund utilises derivative financial instruments to hedge exposure to fluctuations in interest rates.

##### a) Interest rate swap commercial hedge contracts

Interest-bearing liabilities of the Fund carried a weighted average effective interest rate of 4.1% (2014: 4.9%). The debt may be protected all or in part from exposure to increasing interest rates, and to ensure steady cash flow of the Fund. Accordingly, the Fund has entered into interest rate swap contracts totalling \$70 million under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The blended fixed interest rate is 2.64% (2014: 3.23%) excluding any margin and line fees.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 20: Derivative financial Instruments (continued)

Swaps currently in place cover approximately 102.2% (2014: 99.9%) of the loan principal outstanding. Further information regarding the swap contracts in place during the financial year is available in Note 9.

The contracts require settlement of net interest receivable or payable each month. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

As explained in Note 1(l), the interest rate swaps have not been designated as hedges for accounting purposes and hence all changes in fair value are recognised immediately in the statement of comprehensive income.

#### Note 21: Equity

##### (a) Issued Units

	30 June 2015 000's	30 June 2014 000's
360 Capital Office Fund - Ordinary units issued	73,280	77,700
	<b>\$'000</b>	<b>\$'000</b>
360 Capital Office Fund - Ordinary units issued	329,817	338,922

##### (b) Movements in issued units

Movements in issued units of the Fund for the year ended 30 June 2015 were as follows:

##### Movement in number of issued units:

	000's	000's
Opening balance	77,700	198,986
1 for 1,000 units consolidation on 24 March 2014	-	(198,786)
Capital Raise (IPO) placement on 17 April 2014	-	77,500
Unit buy-back	(4,420)	-
Closing balance	<b>73,280</b>	77,700

##### Movement in value of issued units:

	\$'000	\$'000
Opening balance	338,922	189,289
Capital Raise (IPO) placement on 17 April 2014	-	155,000
Capital Raise costs	-	(5,367)
Unit buy-backs	(9,105)	-
Closing balance	<b>329,817</b>	338,922

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 22: Financial instruments

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Fund as at 30 June 2015:

	Amortised cost		Fair value profit or loss	
	30 June 2015 \$'000	30 June 2014 \$'000	30 June 2015 \$'000	30 June 2014 \$'000
<b>Financial assets</b>				
Receivables	988	473	-	-
<b>Total current</b>	<b>988</b>	<b>473</b>	-	-
<b>Total</b>	<b>988</b>	<b>473</b>	-	-
<b>Financial liabilities</b>				
Trade and other payables	2,391	2,433	-	-
Distributions payable	3,114	3,302	-	-
<b>Total current</b>	<b>5,505</b>	<b>5,735</b>	-	-
Borrowings	67,983	85,902	-	-
Derivative financial instruments	-	-	195	919
<b>Total non-current</b>	<b>67,983</b>	<b>85,902</b>	<b>195</b>	<b>919</b>
<b>Total</b>	<b>73,488</b>	<b>91,637</b>	<b>195</b>	<b>919</b>

#### Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2015:

	Carrying amount		Fair value	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
<b>Financial assets</b>				
Receivables	988	473	988	473
<b>Total current</b>	<b>988</b>	<b>473</b>	<b>988</b>	<b>473</b>
<b>Total</b>	<b>988</b>	<b>473</b>	<b>988</b>	<b>473</b>
<b>Financial liabilities</b>				
Trade and other payables	2,391	2,433	2,391	2,433
Distributions payable	3,114	3,302	3,114	3,302
<b>Total current</b>	<b>5,505</b>	<b>5,735</b>	<b>5,505</b>	<b>5,735</b>
Borrowings	67,983	85,902	68,500	86,580
Derivative financial instruments	195	919	195	919
<b>Total non-current</b>	<b>68,178</b>	<b>86,821</b>	<b>68,695</b>	<b>87,499</b>
<b>Total</b>	<b>73,683</b>	<b>92,556</b>	<b>74,200</b>	<b>93,234</b>

The fair values of receivables, trade and other payables and distributions payable approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair values quoted in the above table in relation to non-current liabilities are all categorised within the fair value hierarchy as Level 2 inputs.

#### Risk management activities

##### Credit risk

The carrying amounts of financial assets included in the statement of financial position represent the Fund's exposure to credit risk in relation to these assets. Credit risk management is detailed in Note 2(a).

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 22: Financial instruments (continued)

##### Interest rate risk

The key source of interest rate risk for the Fund is derived from borrowings. The Fund manages this exposure by entering into interest rate swap agreements to fix a portion of the interest charged on its borrowings.

The Fund's exposure to interest rate risk by maturity period is:

	Floating interest rate \$'000	Fixed interest maturing in 1 year or less \$'000	Fixed interest maturing in 1 to 5 years \$'000	Fixed interest maturing more than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>30 June 2015</b>						
<u>Financial assets</u>						
Cash and cash equivalents	3,421	-	-	-	-	3,421
Trade and other receivables	-	-	-	-	988	988
Total financial assets	<b>3,421</b>	-	-	-	<b>988</b>	<b>4,409</b>
Weighted average interest rate	1.50%					
<u>Financial liabilities</u>						
Trade and other payables	-	-	-	-	2,391	2,391
Distributions payable	-	-	-	-	3,114	3,114
Borrowings	-	-	68,500	-	-	68,500
Derivative financial instruments	-	-	-	-	195	195
Total financial liabilities	-	-	<b>68,500</b>	-	<b>5,700</b>	<b>74,200</b>
Weighted average interest rate			4.09%			
Net financial assets (liabilities)	<b>3,421</b>	-	<b>(68,500)</b>	-	<b>(4,712)</b>	<b>(69,791)</b>
<b>30 June 2014</b>						
<u>Financial assets</u>						
Cash and cash equivalents	4,928	-	-	-	-	4,928
Trade and other receivables	-	-	-	-	473	473
Total financial assets	4,928	-	-	-	473	5,401
Weighted average interest rate	2.45%					
<u>Financial liabilities</u>						
Trade and other payables	-	-	-	-	2,433	2,433
Distributions payable	-	-	-	-	3,302	3,302
Borrowings	80	-	86,500	-	-	86,580
Derivative financial instruments	-	-	-	-	919	919
Total financial liabilities	80	-	86,500	-	6,654	93,234
Weighted average interest rate	4.16%		4.91%			
Net financial assets (liabilities)	<b>4,848</b>	-	<b>(86,500)</b>	-	<b>(6,181)</b>	<b>(87,833)</b>

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2015

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#### Note 22: Financial instruments (continued)

##### Summarised interest rate sensitivity analysis

The table below illustrates the potential impact a change in interest rates by +/-1% would have had on the Fund's profit and equity.

	Carrying amount \$'000	Change in interest rate	
		-1% Profit \$'000	+1% Profit \$'000
<b>30 June 2015</b>			
<u>Financial assets</u>			
Cash and cash equivalents	3,421	(34)	34
<u>Financial liabilities</u>			
Interest bearing loans	67,983	0	0
Derivative financial instruments	195	(3,061)	2,919
Total increase (decrease)		<b>(3,095)</b>	<b>2,953</b>
<b>30 June 2014</b>			
<u>Financial assets</u>			
Cash and cash equivalents	4,928	(49)	49
<u>Financial liabilities</u>			
Borrowings	85,902	1	(1)
Derivative financial instruments	919	(2,453)	2,379
Total increase (decrease)		<b>(2,501)</b>	<b>2,427</b>

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 22: Financial instruments (continued)

##### Liquidity risk

The following are contractual maturities of financial liabilities, including estimated interest payments (using existing variable interest rates):

	Carrying amount \$'000	Contractual cash flow \$'000	Less than 1 Year \$'000	Between 1- 5 Years \$'000	Over 5 Years \$'000
<b>30 June 2015</b>					
Trade and other payables	2,391	2,391	2,391	-	-
Distribution payable	3,114	3,114	3,114	-	-
Borrowings	67,983	72,909	2,457	70,452	-
Derivative financial instruments	195	1,580	347	1,233	-
	<b>73,683</b>	<b>79,994</b>	<b>8,309</b>	<b>71,685</b>	-
<b>30 June 2014</b>					
Trade and other payables	2,433	2,433	2,433	-	-
Distribution payable	3,302	3,302	3,302	-	-
Borrowings	85,902	97,294	3,834	93,460	-
Derivative financial instruments	919	1,174	420	754	-
	<b>92,556</b>	<b>104,203</b>	<b>9,989</b>	<b>94,214</b>	-

##### Fair value risk

The carrying amounts of assets and liabilities measured at fair value through profit and loss included in the statement of financial position represent the Fund's exposure to fair value risk. Fair value risk management with respect to the Investment properties and non-current assets held for sale is detailed in Note 16. Fair value risk management with respect to financial instruments which are measured at fair value through profit and loss are detailed below.

As at 30 June 2015, the Fund held the following classes of financial instruments measured at fair value:

	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>As at 30 June 2015:</b>				
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments	195	-	195	-
<b>As at 30 June 2014:</b>				
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments	919	-	919	-

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### Note 22: Financial instruments (continued)

##### Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy. Described as follows, based on the lowest level input that is significant to the fair value measurements as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

#### **Valuation techniques**

##### Rental guarantee

The rental guarantee is measured as the present value of the expected future cash flows under the guarantee arrangements.

##### Derivative financial instruments

For derivatives, as market prices are unavailable the Group uses valuation models to derive fair value. The models are industry standard and mostly employ a Black–Scholes framework to calculate the expected future value of payments by derivative, which is discounted back to a present value. The models' interest rate inputs are benchmark interest rates such as BBSW and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced through a consensus data provider. As such, the input parameters into the models are deemed observable, thus these derivatives are categorised as Level 2 instruments.

##### Borrowings

The fair value of the borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.



## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 23: Reconciliation of net profit to net cash inflows from operating activities

	30 June 2015 \$'000	30 June 2014 \$'000
<b>Net profit for the year</b>	12,402	56,399
<u>Adjustment for:</u>		
Net increase in fair value of investment properties	(5,569)	(14,845)
Net (loss)/gain on fair value of rental guarantee	2,414	(45)
Net loss on derivative financial instruments	1,149	673
Amortisation of borrowing costs	262	265
Loss on sale of properties	1,023	-
Debt forgiveness	-	(29,761)
Responsible Entity fee waiver	-	(8,627)
Exit fees	-	71
<u>Changes in assets and liabilities:</u>		
Decrease/(Increase) in receivables and prepayments	1,067	366
Decrease in trade and other payables	(42)	(75)
<b>Net cash inflows from operating activities</b>	<b>12,706</b>	<b>4,421</b>

#### Note 24: Capital commitments and contingencies

No other capital commitments and contingencies apart from those already mentioned in the Responsible Entity report exist at the end of the financial year.

#### Note 25: Related party transactions

##### Responsible Entity

On 6 June 2014 the Responsible Entity of the Fund changed from 360 Capital RE Limited to 360 Capital Investment Management Limited, a wholly owned subsidiary of 360 Capital Group Limited.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

#### Note 25: Related party transactions (continued)

##### Responsible Entity's fees and other transactions

Under the terms of the constitution, the Responsible Entity is entitled to receive fees in accordance with the product disclosure statement.

	30 June 2015 \$	30 June 2014 \$
<b>Fees for the year paid/payable by the Fund:</b>		
Management of the Fund	1,347,057	863,872
Exit fees	-	70,500
Custodian fees	112,255	69,738
Fund recoveries	26,522	38,510
	<b>1,485,834</b>	<b>1,042,620</b>
Leasing fees (capitalised)	-	100,467
<b>Total fees received by the Responsible Entity</b>	<b>1,485,834</b>	<b>1,143,087</b>
	30 June 2015 \$	30 June 2014 \$
<b>Aggregate amounts due to the Responsible Entity at balance date:</b>		
Management of the Fund	115,525	303,655
Fund recoveries	14,081	37,224
	<b>129,606</b>	<b>340,879</b>

The Responsible Entity is entitled to a management fee of 0.65% per annum of the gross asset value of the Fund calculated in accordance with the Fund's constitution. The Responsible Entity has elected to charge 0.6% per annum for the financial year ended 30 June 2015. The management fee calculation changed when the Fund listed on 24 April 2014, up until that date the management fees were charged based on 6% of the gross rental income of the Fund.

Custodian fees are paid to the custodian, also being 360 Capital Investment Management Limited, and calculated in accordance with the constitution at a rate of 0.05% of the Fund's gross assets.

In the financial year ended 30 June 2015, no outstanding debts were forgiven in favour of the Fund. In the prior financial year, upon listing of the Fund, 360 Capital RE Limited, the Responsible Entity at the time removed its entitlement to outstanding exit and management fees resulting in a gain of \$8,626,937.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### Note 25: Related party transactions (continued)

##### Transactions with other related parties

360 Capital Developments Income Fund was a related party of the Fund by virtue of the fact it has the same Responsible Entity. In the prior financial year, upon listing of the Fund, DIF removed its entitlement to a portion of debt owing from the 360 Capital Office Fund amounting to \$29,761,144 in accordance with a liquidity proposal.

##### Unitholdings

Units held by the Responsible Entity and other Funds managed by and related to the Responsible Entity held units in the Fund as follows:

	30 June 2015	30 June 2014
<b>360 Capital Diversified Property Fund</b>		
Number of units held	1,895,944	264,944
Interest % held	2.59%	0.34%
Distributions paid/payable by the Fund (\$)	312,494	11,260
<b>360 Capital Investment Trust</b>		
Number of units held	16,675,762	16,675,762
Interest % held	22.76%	21.46%
Distributions paid/payable by the Fund (\$)	2,834,880	708,720
<b>360 Capital Investment Management Limited</b>		
Number of units held	2,500,000	2,500,000
Interest % held	3.41%	3.22%
Distributions paid/payable by the Fund (\$)	425,000	106,250
<b>360 Capital AREIT Fund</b>		
Number of units held	14,075	-
Interest % held	0.02%	-
Distributions paid/payable by the Fund (\$)	1,755	-

##### Remuneration of Directors and Key Management Personnel of the Responsible Entity

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the Key Management Personnel ("KMP"). The Directors of the Responsible Entity are KMP.

No compensation is paid directly by the Fund to Directors or to any KMP of the Responsible Entity.

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### Note 25: Related party transactions (continued)

##### Loans to Directors and Key Management Personnel of the Responsible Entity

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the Directors and KMP or their personally related entities at any time during the year.

##### Other transactions with Directors and Specified Executives of the Responsible Entity

From time to time, Directors and KMP or their personally related entities may buy or sell units in the Fund. These transactions are subject to the same terms and conditions as those entered into by other Fund investors.

##### Management personnel Unit holdings

The number of units held directly or indirectly by Directors, Key Management Personnel and their related parties as at 30 June 2015 are as follows:

Name	Position	30 June	Acquisitions	30 June
		2014		2015
		Equity Holding		Equity Holding
David van Aanholt	Director	Nil	-	Nil
Tony Robert Pitt	Director	100,000	-	100,000
William John Ballhausen	Director	25,000	25,000	50,000
Graham Ephraim Lenzner	Director	Nil	-	Nil
Andrew Graeme Moffat	Director	Nil	-	Nil

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### Note 26: Controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of Domicile	Class of units	Equity Holding	
			30 June	30 June
			2015	2014
			%	%
BDIF 33 Allara Street Unit Trust	Australia	Ordinary	100	100
BDIF 33 AST 19 No. 1	Australia	Ordinary	100	100
BDIF 33 AST 19 No.2	Australia	Ordinary	100	100
BDIF 33 AST 12	Australia	Ordinary	100	100
BDL 33 Allara Street Unit Trust	Australia	Ordinary	100	100
BDL 33 Allara 12	Australia	Ordinary	100	100
BDL 33 Allara 19 No.1	Australia	Ordinary	100	100
BDL 33 Allara 10 No.2	Australia	Ordinary	100	100
Becton Canberra Trust No 2	Australia	Ordinary	100	100
BOPT 422 Lt Collins St Holding Trust	Australia	Ordinary	100	100
BOPT 422 Lt Collins St Sub Trust	Australia	Ordinary	100	100
BOPT Elizabeth Plaza Holding Trust	Australia	Ordinary	100	100
BOPT Elizabeth Plaza Sub Trust	Australia	Ordinary	100	100
BOPT Railway Parade Holding Trust	Australia	Ordinary	100	100
BOPT Railway Parade Sub Trust	Australia	Ordinary	100	100
BOPT Mahuhu Cres HT 1	Australia	Ordinary	100	100
BOPT Mahuhu Cres HT2	Australia	Ordinary	100	100
BOPT Mahuhu Crescent Sub Trust	Australia	Ordinary	100	100
BOPT Finance Pty Ltd	Australia	Ordinary	100	100
Becton Canberra Pty Ltd	Australia	Ordinary	100	100
BDIF Nominee Pty Ltd	Australia	Ordinary	100	100
ACN 062 671 872 Pty Ltd	Australia	Ordinary	100	100
Becton CMBS No. 1 Pty Ltd	Australia	Ordinary	100	100

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2015

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#### Note 27: Parent entity disclosures

The following details information relating to the parent entity 360 Capital Office Fund. The information presented below has been prepared using the consistent accounting policies as presented in Note 1.

	<b>30 June 2015 \$'000</b>	<b>30 June 2014 \$'000</b>
Current assets	4,061	4,637
Non-current assets	196,550	222,183
<b>Total assets</b>	<b>200,611</b>	<b>226,820</b>
Current liabilities	5,434	4,566
Non-current liabilities	68,178	86,821
<b>Total liabilities</b>	<b>73,612</b>	<b>91,387</b>
Issued units	329,817	338,922
Accumulated losses	(202,818)	(203,489)
<b>Total equity</b>	<b>126,999</b>	<b>135,433</b>
Net profit for the year	13,487	22,337
<b>Total comprehensive profit for the year attributable to unitholders</b>	<b>13,487</b>	<b>22,337</b>

#### Note 28: Events subsequent to balance date

Post period, the Department of Environment (“DoE”) tenant at 33 Allara Street, Canberra, ACT extended their lease for a period of 12 months at the current passing rental. There have been no other circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

## 360 Capital Office Fund and its controlled entities

### Directors' declaration

For the year ended 30 June 2015

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- 1) The Directors of 360 Capital Investment Management Limited, the Responsible Entity, declare that:
  - (a) The consolidated financial statements and notes that are set out on pages 13 to 45, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - 2) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
  - 3) The Directors have given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and the Chief Financial Officer for the financial year ended 30 June 2015.
  - 4) The Directors draw attention to Note 1(b) to the consolidated financial statements, which includes a statement of compliance with International Financial reporting Standards.

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



**Tony Robert Pitt**  
Director



**Graham Ephraim Lenzner**  
Director

Sydney  
19 August 2015



Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
ey.com/au

## Independent auditor's report to the unitholders of 360 Capital Office Fund

### Report on the Financial Report

We have audited the accompanying financial report of 360 Capital Office Fund (the "Fund"), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the declaration of the directors of 360 Capital Investment Management Limited, the Responsible Entity of the consolidated entity comprising the Fund and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

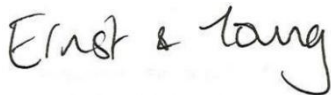
In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which forms part of the directors' report.



## Opinion

In our opinion:

- a. the financial report of 360 Capital Office Fund is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.



Ernst & Young



Mark Conroy  
Partner  
Sydney  
19 August 2015

## UNITHOLDER INFORMATION

Information below was prepared as at 11 August 2015

### a) Top 20 registered unitholders:

Holder Name	Units held	% of issued units
THE TRUST COMPANY (AUSTRALIA) LIMITED <360 CAPITAL A/C>	16,675,762	22.756
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <APN A/C>	5,085,466	6.940
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,282,465	5.844
CITICORP NOMINEES PTY LIMITED	2,920,779	3.986
360 CAPITAL INVESTMENT MANAGEMENT LIMITED	2,587,207	3.531
WYLLIE GROUP PTY LTD <WYLLIE GROUP PTY LTD A/C>	2,500,000	3.412
NATIONAL NOMINEES LIMITED	1,940,283	2.648
360 CAPITAL INVESTMENT MANAGEMENT <DIVERSIFIED PROPERTY FUND AC>	1,631,000	2.226
AUST EXECUTOR TRUSTEES LTD <LANYON AUST VALUE FUND>	929,794	1.269
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PISELECT>	895,105	1.221
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	729,396	0.995
HORRIE PTY LTD	705,475	0.963
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	610,706	0.833
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	543,060	0.741
BNP PARIBAS NOMS PTY LTD <DRP>	539,553	0.736
B & G PROPERTIES PTY LTD <POWER MANAGEMENT S/F A/C>	500,000	0.682
MR RAYMOND ROBERT WILSON & MRS EVA ANN WILSON	400,000	0.546
RS FAMILY HOLDINGS PTY LIMITED <THE RUTH SIMON FAMILY A/C>	375,000	0.512
HILLMORTON CUSTODIANS PTY LTD <THE LENNOX UNIT A/C>	348,000	0.475
EDSGEAR PTY LIMITED	300,000	0.409
<b>Total units held by Top 20 unitholders</b>	<b>44,499,051</b>	<b>60.725</b>
<b>Total units on issue</b>	<b>73,279,751</b>	<b>100.000</b>

### b) Distribution of unitholders:

Number of units held by unitholders	Number of holders	Units held	% of issued units
1 to 1,000	183	39,923	0.054
1,001 to 5,000	405	1,544,545	2.107
5,001 to 10,000	461	3,862,427	5.270
10,001 to 100,000	816	20,573,316	28.071
100,001 and over	40	47,269,540	64.498
<b>Total</b>	<b>1,905</b>	<b>73,289,751</b>	<b>100.000</b>

The total number of unitholders with less than a marketable parcel was 116 and they hold 4,530 units.

### c) Substantial unitholder notices:

Name of unitholder	Date of notice	Units held	% of issued units
360 Capital Investment Management Ltd	07/01/2015	26,192,073	29.71
APN Property Group Limited	24/03/2015	5,240,000	6.74
First Samuel Ltd	24/07/2015	3,705,177	5.06

## 360 Capital Office Fund and its controlled entities

For the year ended 30 June 2015

# GLOSSARY

Term	Definition
\$ or A\$ or cents	Australian currency
360 Capital Financial Services Pty Limited	An unlisted services company (ACN 084 389 695)
360 Capital Investment Trust	The managed investment trust (ARSN 141 872 844) that represents part of the stapled entity, 360 Capital
360 Capital Property Limited	The unlisted public company (ACN 146 484 433) that represents part of the stapled entity, 360 Capital
360 Capital, 360 Capital Group or 360 Capital Property Group	360 Capital Property Group, the stapled entity comprising 360 Capital Investment Trust and 360 Capital Property Limited
AASB	Australian Accounting Standards Board
AFSL	Australian Financial Services Licence
A-REIT	Australian Real Estate Investment Trust
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited or the market operated by it as the context requires
ASX Guidelines	The ASX Principles of Good Corporate Governance and Best Practice Guidelines
Board or Board of the responsible entity	Board of Directors of the Responsible Entity
CGT	Capital gains tax
Constitution	The constitution of the Fund, as amended
Corporations Act	Corporations Act 2001 (Cth) as amended from time to time
CPI	Consumer price index
Cpu	Cents per Unit
Director/s	A director of the Responsible Entity
Distribution yield	Rate of return derived by dividing distribution per Unit by the price
Earnings yield	Rate of return derived by dividing earnings per Unit by the price
FOS	Financial Ombudsman Service
Fund	360 Capital Office Fund (ARSN 106 453 196)
Fund Investment Committee	The committee established to oversee the Fund's investments, key recruitment and policies
Fund Listing	The listing of the Fund and its Units to be quoted on the Australian Securities Exchange (ASX)]
FY	Financial year (1 July to 30 June)
Gross Passing Income	The actual income being paid for a property by existing tenants
Gross Proceeds	The aggregate of all moneys (including all rent, licence fees, outgoings and all other amounts) received from tenants and other occupants and users of the real property assets (held directly or indirectly) of the Fund
Group	360 Capital Property Group, the stapled entity comprising 360 Capital Investment Trust and 360 Capital Property Limited
GST	Goods and services tax (Australia)
HY	Half Year (half year from 1 July to 31 December or 1 January to 30 June)
ICR	Interest Cover Ratio meaning net rent received divided by interest expense incurred on the facility
IFRS	International Financial Reporting Standards
Institutional Investors	An investor (Australian and/or non-Australian) to whom offers or invitations of financial product can be made without the need for a Prospectus or Product Disclosure Statement
Listing Rules	The official listing rules of ASX from time to time as modified by any express written confirmation, waiver or exemption given by ASX
LVR	Loan to value ratio meaning interest bearing liabilities (excluding 360 Notes) divided by total property values
Management Fee(s)	Fee which the Responsible Entity is entitled to for its role in managing and administering the Fund
NAB	National Australia Bank Limited (ABN 12 004 044 937)
NAB Facility	The Fund's debt facility with NAB which provides secured bank debt to the Fund
NLA	Net lettable area
NPI	Net property income
NTA	Net tangible assets as per the balance sheet
NTA per Unit	Net tangible assets divided by the number of Units on issue

### 360 Capital Office Fund and its controlled entities

For the year ended 30 June 2015

Operating earnings	Operating earnings is statutory net profit adjusted for non-cash and significant items
p.a.	Per annum
Property/ies	A property or properties owned or to be owned by the Fund
Registry	Boardroom Pty Limited (ACN 003 209 836)
Responsible Entity	360 Capital Investment Management Limited (ACN 133 363 185, AFSL 340 304)
Sqm	Square metres
Unit(s)	A unit in the Fund
Unitholder(s)	The holder of a Unit
WACR	Weighted average capitalisation rate
WALE	Weighted average lease expiry
YTD	Year to date

## **CORPORATE DIRECTORY**

### **Responsible Entity**

360 Capital Investment Management Limited  
ACN 133 363 185  
AFSL 340 304  
Level 8, 56 Pitt Street Sydney NSW 2000  
Telephone (02) 8405 8860 Email: investor.relations@360capital.com.au

### **Directors & Officers**

#### Non-Executive Directors

David van Aanholt (Chairman)  
William John Ballhausen  
Graham Ephraim Lenzner  
Andrew Graeme Moffat

#### Executive Director

Tony Robert Pitt (Managing Director)

#### Officers

Ben James - Chief Investment Officer  
Glenn Butterworth - Chief Financial Officer  
Alan Sutton – Company Secretary  
Charisse Nortje - Company Secretary  
James Storey – Fund manager

### **Custodian**

360 Capital Investment Management Limited  
ACN 133 363 185  
AFSL 340 304  
Level 8, 56 Pitt Street Sydney NSW 2000  
Telephone 02 8405 8860 Email: investor.relations@360capital.com.au

### **Unit Registry**

Boardroom Pty Limited  
ACN 003 209 836  
Grosvenor Place, Level 12, 255 George Street Sydney NSW 2000  
Telephone 1800 182 257 Email: enquiries@boardroomlimited.com.au

### **Bankers**

National Australia Bank  
Level 28, 500 Bourke Street Melbourne VIC 3000

Bankwest  
Bankwest Place, 300 Murray Street, Perth WA 6000

### **Auditor**

Ernst & Young  
680 George Street Sydney NSW 2000

### **Website**

[www.360capital.com.au](http://www.360capital.com.au)