

360 CAPITAL OFFICE FUND

Interim Financial Report
FOR THE HALF YEAR ENDED
31 DECEMBER 2015

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

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Interim Financial Report For the half year ended 31 December 2015

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Cover image: Botanica 8, 576 Swan Street, Richmond, VIC.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by 360 Capital Office Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

360 Capital Office Fund and its controlled entities

Responsible Entity report

For the half year ended 31 December 2015

The Directors of 360 Capital Investment Management Limited (“CIML”), the Responsible Entity, present their report together with the interim financial report of 360 Capital Office Fund (ARSN 106 453 196) and its controlled entities (“the Fund”) (ASX:TOF) for the half year ended 31 December 2015.

Directors

The following persons were Directors of the Responsible Entity during the half 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 half year, the principal activity of the Fund was investment in commercial office properties within Australia. There have been no significant changes to the principal activities during the period.

Operating and financial review

The statutory profit attributable to the unitholders of the Fund for the half year ended 31 December 2015 was \$4.4 million (December 2014: \$3.7 million). The operating profit (profit before specific non-cash items and significant items) was \$7.2 million (December 2014: \$6.7 million).

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 8: Segment reporting of the financial statements for the half year ended 31 December 2015, which have been subject to review, refer to page 24 for the auditor’s review report on the financial statements.

360 Capital Office Fund and its controlled entities

Responsible Entity report

For the half year ended 31 December 2015

Operating and financial review (continued)

	31 December 2015 \$'000	31 December 2014 \$'000
Profit attributable to the unitholders of the Fund	4,366	3,652
Specific non-cash items		
Net loss on fair value of investment properties	200	741
Gain on fair value of rental guarantee	(54)	(311)
Rental guarantee cash received	550	699
Net loss on fair value of derivative financial instruments	648	811
Amortisation of borrowing costs	141	125
Straight-lining of lease revenue	(697)	(45)
Amortisation of incentives and leasing fees	672	50
Significant items		
Net loss on sale of investment property	1,278	1,019
Outstanding duty paid	134	-
Operating profit (profit before specific non-cash and significant items)	7,238	6,741

The key financial highlights for the half year ended 31 December 2015 include:

- Profit attributable to the unitholders of the Fund of \$4.4 million, representing 6.0 cents per unit (“cpu”), an increase of 27.7% on the prior period;
- Operating profit of \$7.2 million representing 9.9 cpu, up 13.8% on the prior period;
- Distributions of \$6.2 million, representing 8.5 cpu in line with full year guidance of 17.0 cpu;
- Gearing¹ has reduced to 18.3% from 28.7% as at 30 June 2015;
- Net tangible assets (“NTA”) of \$155.0 million (30 June 2015: \$156.8 million) representing \$2.11 per unit (30 June 2015: \$2.14); and
- The ASX closing price at 31 December 2015 of \$2.05 per unit reflected a discount to NTA of 2.8%.

The key operational highlights for the half year ended 31 December 2015 include:

- The Fund disposed of 33 Allara Street, Canberra ACT (“33 Allara Street”) for \$29.0 million on 20 November 2015 with net proceeds being utilised to reduce debt;
- Leased over 9,500 square meters (“sqm”);
- Maintained strong occupancy² of 98.7%;
- Increased WALE³ from 4.6 to 5.1 years;
- Portfolio WACR⁴ of 7.4%, a firming of 40 basis points from 30 June 2015 as a result of the 33 Allara Street disposal; and
- Post period, the Fund agreed terms with the 360 Capital Group (subject to Unitholder and other approvals including an Independent Expert’s Report) for the acquisition of 360 Capital Group’s holding in the 111 St George’s Terrace Property Trust for \$30.4 million. The acquisition is forecast to be EPU and DPU accretive and NTA neutral.

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 half year ended 31 December 2015

Financial Results

The Fund recorded a statutory net profit of \$4.4 million for the period, 20.0% above the results for the period ended 31 December 2014 driven by a 4.7% increase in rental income. Increased operating earnings of \$7.2 million (31 December 2014: \$6.7 million) were driven by higher property income from acquisitions, fixed rental increases and lower property expenses. Distributions per unit ("DPU") remained unchanged at 8.5 cpu for the period ended 31 December 2015 in line with guidance.

Total assets have decreased from \$230.5 million to \$200.2 million over the period as a result of the disposal of 33 Allara Street. The net proceeds from the disposal of 33 Allara Street have been utilised to reduce the Fund's senior debt facility, reducing gearing from 28.7% (30 June 2015) to 18.3% at balance date. The Fund's NTA has decreased by 1.4% to \$155.0 million (2015: \$156.8 million) representing \$2.11 per unit (2015: \$2.14) as a result of the loss on the sale and associated transaction costs of 33 Allara Street and mark to market movements of derivative financial swap instruments.

Property portfolio

The property portfolio continued to perform, maintaining occupancy at 98.7% over the period. A key focus for the Fund was the renewal of the Department of Environment tenant at 33 Allara Street whose lease expired in December 2015. In August 2015, the Fund secured a 12 month extension of the Department of Environment lease which allowed the Fund to position the asset for sale.

Shortly after securing the 12 month extension, the Fund was approached by a number of parties to acquire 33 Allara Street. After a short marketing campaign, the Fund exchanged contracts in November 2015 for a sale price of \$29.0 million, subsequently settling the sale of the asset in late November 2015. The disposal removed much of the Fund's leasing risk and on-going capital expenditure requirements and increased the Fund's WALE from 4.6 years to 5.1 years.

The Fund's properties were valued by the Directors as at 31 December 2015 and remained in line with previous independent valuations. The WACR firmed by 40 basis points to 7.4% as a result of the sale of 33 Allara Street.

Since listing in April 2014, the Fund has focused on improving underlying earnings quality through the recycling of non-core assets. The Fund sold its Burwood and Canberra assets in June 2014 and November 2015 respectively for a combined 9.5% premium to the book values contained in the Fund's Initial Public Offering ("IPO"). Besides improving the quality of rental income received by the Fund, these non-core disposals deleveraged the Fund's balance sheet and removed the majority of medium term lease expiry and forecast capital expenditure.

Post the reporting period, the Fund agreed terms with the 360 Capital Group (subject to Unitholder and other approvals including an Independent Expert's Report) for the acquisition of 360 Capital Group's holding in the 111 St George's Terrace Property Trust for \$30.4 million. The acquisition is forecast to be EPU and DPU accretive and NTA neutral. The 360 Capital 111 St George's Terrace Property Trust is an unlisted registered managed investment scheme owning one asset, being 111 St George's Terrace, Perth, Western Australia.

Capital management

As at 31 December 2015, the Fund had total debt facilities of \$80.0 million of which \$39.7 million was drawn, representing a gearing ratio of 18.3%. The Fund's weighted average debt maturity is 1.3 years. Interest rate hedges over \$70.0 million of debt are in place at a weighted average interest rate of 2.64% (excluding any margins). The weighted average interest rate hedge term is approximately 4.1 years. The Fund remains well within its debt covenants, with the current Interest Cover Ratio of 6.4 times against a bank covenant of 2.0 times and Loan to Value Ratio of 20.2% against a bank covenant of less than 50.0%.

At balance date, approximately \$40.3 million of debt capacity was available with which the Fund will look to deploy (subject to Unitholder and other approvals including an Independent Expert's Report) into the proposed acquisition of the 360 Capital Group's holding in the 360 Capital 111 St George's Terrace Property Trust.

360 Capital Office Fund and its controlled entities

Responsible Entity report

For the half year ended 31 December 2015

Outlook and guidance

The Fund's closing price on 31 December 2015 of \$2.05 per unit reflected a 2.8% discount to the 31 December 2015 NTA of \$2.11 per unit. Closing this gap is a key focus of the Fund for the 2016 financial year. Looking forward, the Fund is well placed to take advantage of transaction opportunities, utilising 360 Capital Group's reputation and network to continue to grow and diversify the Fund's earnings base. The Fund will update the market on the proposed acquisition of 360 Capital 111 St George's Terrace Property Trust in due course.

Distributions

Distributions declared during the half year ended 31 December 2015 are as follows:

	31 December 2015 \$'000	31 December 2014 \$'000
September 2014 quarter 4.25 cents per unit paid 24 October 2014	-	3,302
December 2014 quarter 4.25 cents per unit paid 23 January 2015	-	3,285
September 2015 quarter 4.25 cents per unit paid 23 October 2015	3,115	-
December 2015 quarter 4.25 cents per unit paid 27 January 2016	3,114	-
Total distributions	6,229	6,587

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. No buy back arrangements occurred in the period ended 31 December 2015 (2014: 405,190 units bought back).

Number of units on issue

The total number of units on issue in the Fund as at 31 December 2015 was 73,279,751 (30 June 2015: 73,279,751).

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 14 to the interim financial statements.

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

As at 31 December 2015, related parties of the Responsible Entity held units in the Fund as detailed in Note 14 to the interim financial statements.

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 half year under review other than those listed above or elsewhere in the Responsible Entity report.

Events subsequent to balance date

No other matters or circumstances apart from those already mentioned in the Responsible Entity Report have arisen since the end of the half 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 periods.

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 interim financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

360 Capital Office Fund and its controlled entities

Responsible Entity report

For the half year ended 31 December 2015

Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 7 and forms part of the Responsible Entity report for the half year ended 31 December 2015.

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



Tony Robert Pitt
Director



Graham Ephraim Lenzner
Director

Sydney
18 February 2016

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

As lead auditor for the review of 360 Capital Office Fund for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of 360 Capital Office Fund and the entities it controlled during the financial period.



Ernst & Young



Mark Conroy
Partner
18 February 2016

360 Capital Office Fund and its controlled entities**Consolidated interim statement of profit or loss and other comprehensive income****For the half year ended 31 December 2015**

		31 December 2015 \$'000	31 December 2014 \$'000
	Note		
Revenue from continuing operations			
Rental income	3	10,689	10,202
Finance revenue		40	72
Total revenue from continuing operations		10,729	10,274
Other income			
Net gain on fair value of rental guarantee		54	311
Total other income		54	311
Total revenue from continuing operations and other income		10,783	10,585
Investment property expenses		1,775	1,868
Management fees	14	767	736
Other administration expenses	4	274	267
Net loss on sale of investment properties		1,278	1,019
Net loss on fair value of investment properties	5	200	741
Net loss on fair value of derivative financial instruments		648	811
Finance costs	6	1,475	1,491
Net profit from continuing operations		4,366	3,652
Total comprehensive income for the half year		4,366	3,652
Earnings per unit - basic and diluted - cents per unit			
	7	6.0	4.7

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

360 Capital Office Fund and its controlled entities
Consolidated interim statement of financial position
As at 31 December 2015

		31 December	30 June
		2015	2015
	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents		3,645	3,421
Receivables		497	988
Total current assets		4,142	4,409
Non-current assets			
Investment properties	9	194,377	223,881
Rental guarantee	9	1,723	2,219
Total non-current assets		196,100	226,100
Total assets		200,242	230,509
Current liabilities			
Trade and other payables		2,015	2,391
Distribution payable		3,114	3,114
Total current liabilities		5,129	5,505
Non-current liabilities			
Borrowings	10	39,307	67,983
Derivative financial instruments		843	195
Total non-current liabilities		40,150	68,178
Total liabilities		45,279	73,683
Net assets		154,963	156,826
Equity			
Issued units	11	329,817	329,817
Accumulated losses		(174,854)	(172,991)
Total equity		154,963	156,826

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

360 Capital Office Fund and its controlled entities
Consolidated interim statement of changes in equity
For the half year ended 31 December 2015

	Note	Issued units \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015		329,817	(172,991)	156,826
Total comprehensive income for the half year		-	4,366	4,366
Transactions with unitholders in their capacity as unitholders				
Distributions paid and payable	2	-	(6,229)	(6,229)
		-	(6,229)	(6,229)
Balance at 31 December 2015		329,817	(174,854)	154,963
<hr/>				
Balance at 1 July 2014		338,922	(172,577)	166,345
Total comprehensive income for the half year		-	3,652	3,652
Transactions with unitholders in their capacity as unitholders				
Distributions paid and payable		-	(6,587)	(6,587)
Unit buy back		(835)	-	(835)
		(835)	(6,587)	(7,422)
Balance at 31 December 2014		338,087	(175,512)	162,575

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

360 Capital Office Fund and its controlled entities**Consolidated interim statement of cash flows****For the year ended 31 December 2015**

		31 December	31 December
		2015	2014
	Note	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		13,353	12,566
Payments to suppliers (inclusive of GST)		(4,685)	(4,579)
Finance revenue		40	72
Finance costs		(1,510)	(1,678)
Net cash inflows from operating activities	13	7,198	6,381
Cash flows from investing activities			
Payments for additions to existing investment properties		(187)	(1,126)
Payments of leasing fees and incentives		(463)	(50)
Payments for acquisition of investment properties		-	(2,081)
Proceeds from disposal of investment properties		28,722	78,931
Net cash inflows from investing activities		28,072	75,674
Cash flows from financing activities			
Proceeds from borrowings		-	2,000
Repayment of borrowings	10	(28,815)	(78,052)
Payments for unit buy back		-	(1,335)
Payments for borrowing costs		(2)	(56)
Distributions paid to unitholders		(6,229)	(6,605)
Net cash outflows from financing activities		(35,046)	(84,048)
Net increase/(decrease) in cash and cash equivalents		224	(1,993)
Cash and cash equivalents at the beginning of the half year		3,421	4,928
Cash and cash equivalents at the end of the half year		3,645	2,935

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

360 Capital Office Fund and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 1: Basis of preparation of half year report

Basis of preparation

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. 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 interim financial report does not include all of the notes and information required for a full annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2015.

The interim financial report was authorised for issue by the Board on 18 February 2016.

The interim 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 \$1.0 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 \$40.3 million at balance date.

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and corresponding interim reporting period.

Note 2: Distributions

Distributions declared during the half year ended 31 December 2015 are as follows:

	31 December 2015 \$'000	31 December 2014 \$'000
September 2014 quarter 4.25 cents per unit paid 24 October 2014	-	3,302
December 2014 quarter 4.25 cents per unit paid 23 January 2015	-	3,285
September 2015 quarter 4.25 cents per unit paid 23 October 2015	3,115	-
December 2015 quarter 4.25 cents per unit paid 27 January 2016	3,114	-
Total distributions	6,229	6,587

Note 3: Rental income

	\$'000	\$'000
Rent	10,664	10,207
Straight-lining of lease revenue	697	45
Amortisation of incentives and leasing fees	(672)	(50)
	10,689	10,202

360 Capital Office Fund and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 4: Other administration expenses

	31 December 2015 \$'000	31 December 2014 \$'000
Administration expenses	140	267
Outstanding duty	134	-
	274	267

Note 5: Net loss on fair value of investment properties

	\$'000	\$'000
Fair value loss on non-current assets held for sale	-	634
Fair value loss on investment properties	200	107
	200	741

Note 6: Finance costs

	\$'000	\$'000
Interest paid or payable on debt facilities	1,334	1,366
Amortisation of capitalised borrowing costs on debt facilities	141	125
	1,475	1,491

Note 7: Earnings per unit

	¢	¢
Basic and diluted earnings per unit	6.0	4.7
	\$'000	\$'000
Basic and diluted earnings		
Net profit attributable to unitholders	4,366	3,652
	000's	000's
Weighted average number of units		
Weighted average number of units	73,280	77,694

Note 8: 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
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 8: Segment reporting (continued)

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

	31 December	31 December
	2015	2014
	\$'000	\$'000
Profit attributable to the unitholders of the Fund	4,366	3,652
Specific non-cash items		
Net loss on fair value of investment properties	200	741
Gain on fair value of rental guarantee	(54)	(311)
Rental guarantee cash received	550	699
Net loss on fair value of derivative financial instruments	648	811
Amortisation of borrowing costs	141	125
Straight-lining of lease revenue	(697)	(45)
Amortisation of incentives and leasing fees	672	50
Significant items		
Net loss on sale of investment property	1,278	1,019
Outstanding duty paid	134	-
Operating profit (profit before specific non-cash and significant items)	7,238	6,741
Weighted average number of units ('000)	73,280	77,694
Operating profit per unit (profit before specific non-cash and significant items) (EPU)		
– cents	9.9	8.7

360 Capital Office Fund and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 9: Investment properties

	Date of acquisition	Book value		Capitalisation rate		Discount rate		Date of last external valuation	Last external valuation \$'000
		31 December 2015	30 June 2015	31 December 2015	30 June 2015	31 December 2015	30 June 2015		
		\$'000	\$'000	%	%	%	%		
Investment property valuations									
485 Kingsford Smith Drive, Hamilton, QLD	Apr 14	70,000	70,000	7.42	7.42	8.75	8.75	Mar 15	70,000
154 Melbourne St, South Brisbane, QLD	Apr 14	77,500	77,500	7.50	7.50	8.50	8.50	Mar 15	77,500
33 Allara St, Canberra, ACT ¹	Dec 05	-	30,000	-	10.25	-	11.50	-	-
Botanicca 8, 576 Swan Street, Richmond, VIC	Feb 15	48,600	48,600	7.25	7.25	8.25	8.25	Mar 15	48,600
Total		196,100	226,100						196,100
Comprises:									
Fair value of Rental guarantee receivable ²		1,723	2,219						
Investment Properties		194,377	223,881						
Total		196,100	226,100						
Less lease income receivable		(5,244)	(5,050)						
		190,856	221,050						

¹ Property sold during the period.

² 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, Brisbane.

360 Capital Office Fund and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 9: Investment properties (continued)

	31 December	30 June
	2015	2015
	\$'000	\$'000
Movement during the period:		
Opening balance as at 1 July	226,100	173,500
Additions to investment properties	208	845
Acquisitions	-	49,299
Disposals	(30,000)	-
Net (loss)/gain on fair value of investment properties	(200)	6,210
Straight-lining of lease revenue	697	16
Gain/(loss) on fair value of rental guarantee	54	(2,414)
Rental guarantee cash received	(550)	(1,237)
Payment of incentives and leasing fees	463	103
Amortisation of incentives and leasing fees	(672)	(222)
Closing balance	196,100	226,100

On 20 November 2015, the Fund settled the disposal of the property situated at 33 Allara Street, Canberra ACT for \$29.0 million (June 2015 carrying value of \$30.0 million). The net proceeds received upon settlement were used to repay borrowings.

Note 10: Borrowings

	31 December	30 June
	2015	2015
	\$'000	\$'000
Non-current		
Borrowings - secured	39,685	68,500
Capitalised borrowing costs	(378)	(517)
	39,307	67,983
Borrowings - banks		
Total facility limit	80,000	80,000
Used at end of reporting date	39,685	68,500
Unused at end of reporting date	40,315	11,500

360 Capital Office Fund and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 10: Borrowings (continued)

	31 December	30 June
	2015	2015
	\$'000	\$'000
Movement during the period:		
Opening balance	68,500	86,580
Repayment of borrowings from bank	(28,815)	(78,052)
New borrowings	-	59,972
Closing balance	39,685	68,500

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 31 December 2015 the debt facility was drawn to \$39.7 million, which represents a Loan to Value Ratio ("LVR") of 20.2% based on the most recent external valuations adopted, which complied with the bank covenant of less than 50.0%. The interest cover ratio was calculated to be 6.4 times, which complied with the bank covenant of no less than 2.0 times.

At balance date the Fund had two interest rate swap commercial hedge contracts with Bankwest and National Australia Bank for a total notional value of \$70.0 million and expiry in January 2020.

Note 11: Issued Units

(a) Issued units

	Half Year	Full Year
	31 December	30 June
	2015	2015
	000's	000's
360 Capital Office Fund - Ordinary units issued	73,280	73,280
	\$'000	\$'000
360 Capital Office Fund - Ordinary units issued	329,817	329,817

360 Capital Office Fund and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 11: Issued Units (continued)

(b) Movements in issued units

Movements in issued units of the Fund for the half year ended 31 December 2015 were as follows:

Movement in number of issued units:

	Half Year 31 December 2015 000's	Full Year 30 June 2015 000's
Opening balance	73,280	77,700
Unit buy back	-	(4,420)
Closing balance	73,280	73,280

Movement in value of issued units:

	\$'000	\$'000
Opening balance	329,817	338,922
Unit buy back	-	(9,105)
Closing balance	329,817	329,817

Note 12: Financial instruments

Fair values

The fair values of all financial instruments with the exception of borrowings approximate their carrying values. This is largely due to the short-term maturities of these instruments. The fair value of borrowings is categorised within the fair value hierarchy as a Level 2 input. Set out below is a comparison of the carrying amount and fair value of borrowings at balance date:

	Carrying amount		Fair value	
	31 December 2015 \$'000	30 June 2015 \$'000	31 December 2015 \$'000	30 June 2015 \$'000
Financial liabilities				
Borrowings	39,307	67,983	39,685	68,500
Total non-current financial liabilities	39,307	67,983	39,685	68,500

As at 31 December 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
Financial liabilities measured at fair value				
Derivative financial instruments as at 31 December 2015	843	-	843	-
Derivative financial instruments as at 30 June 2015	195	-	195	-

360 Capital Office Fund and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2015

Note 12: 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 period, 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

Derivative financial instruments

For derivatives, as market prices are unavailable the Fund 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 the Bank Bill Swap reference rate ("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.

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Note 13: Reconciliation of net profit to net cash inflows from operating activities

	31 December 2015 \$'000	31 December 2014 \$'000
Net profit for the half year	4,366	3,652
<u>Adjustment for:</u>		
Net changes in fair value of investment properties	200	741
Fair value loss on derivative financial instruments	648	811
Loss on sale of properties	1,278	1,019
Net gain on fair value of rental guarantee	(54)	(311)
Amortisation of borrowing costs	141	125
<u>Changes in assets and liabilities:</u>		
Decrease in receivables and prepayments	995	706
Decrease in trade and other payables	(376)	(412)
Net cash inflows from operating activities	7,198	6,381

Note 14: Related party transactions

Responsible Entity

The Responsible Entity of 360 Capital Office Fund is 360 Capital Investment Management Limited, a wholly owned subsidiary of 360 Capital Group Limited.

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.

Management fees	31 December 2015 \$	31 December 2014 \$
Fees for the half year paid/payable by the Fund:		
Management of the Fund	691,382	680,455
Custodian fees	57,617	55,878
Fund recoveries	17,959	76
	766,958	736,409

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Note 14: Related party transactions (continued)

	31 December 2015	30 June 2015
	\$	\$
Aggregate amounts due to the Responsible Entity at balance date:		
Management of the Fund	101,776	115,525
Fund recoveries	13,406	14,081
	115,182	129,606

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 period ended 31 December 2015.

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.

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:

	31 December 2015	30 June 2015
360 Capital Diversified Property Fund		
Number of units held	1,895,944	1,895,944
Interest % held	2.59%	2.59%
Distributions paid/payable by the Fund (\$)	312,494	312,494
360 Capital Investment Trust		
Number of units held	16,675,762	16,675,762
Interest % held	22.76%	22.76%
Distributions paid/payable by the Fund (\$)	2,834,880	2,834,880
360 Capital Investment Management Limited		
Number of units held	2,500,000	2,500,000
Interest % held	3.41%	3.41%
Distributions paid/payable by the Fund (\$)	425,000	425,000
360 Capital AREIT Fund		
Number of units held	21,575	14,075
Interest % held	0.03%	0.02%
Distributions paid/payable by the Fund (\$)	1,515	1,755

360 Capital Office Fund and its controlled entities

Condensed notes to the interim financial report

For the half year ended 31 December 2015

Note 14: Related party transactions (continued)

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.

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 half 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

Units are held directly or indirectly by Directors, Key Management Personnel and their related parties as at 31 December 2015.

Note 15: Events subsequent to balance date

Post the reporting period, the Fund made an offer (subject to Unitholder and other approvals including an Independent Expert's Report) to 360 Capital Group for the acquisition of the Group's holding (44.4%) in the 360 Capital 111 St George's Terrace Property Trust, an unlisted registered managed investment scheme owning one asset, being 111 St George's Terrace, Perth, Western Australia ("111SGT"). As the acquisition of the Group's holding in 111SGT represents more than 5.0% of the equity interests of 360 Capital Office Fund, the acquisition is conditional upon Unitholder approval. Full details of the proposed acquisition will be made available in the Notice of Meeting to be lodged with the Australian Stock Exchange.

Note 16: Responsible Entity details

The registered office and the principal place of business of the Responsible Entity is:

360 Capital Investment Management Limited
Level 8, 56 Pitt Street
Sydney, NSW 2000

360 Capital Office Fund and its controlled entities

Directors' declaration

For the half year ended 31 December 2015

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 8 to 22, 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 31 December 2015 and of its performance for the half year ended on that date; and

(ii) complying with AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

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

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



Tony Robert Pitt
Director



Graham Ephraim Lenzner
Director

Sydney
18 February 2016

To the unitholders of 360 Capital Office Fund

Report on the Interim Financial Report

We have reviewed the accompanying consolidated interim financial report of 360 Capital Office Fund (the "Fund") which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the period end or from time to time during the period.

Directors' Responsibility for the Interim Financial Report

The directors of 360 Capital Investment Management Limited, the Responsible Entity of the Fund, are responsible for the preparation of the consolidated interim 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 consolidated interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2015 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 360 Capital Office Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a consolidated interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

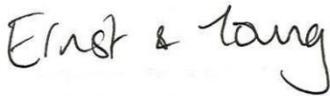
Independence

In conducting our review, 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 follows the Responsible Entity Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated interim financial report of 360 Capital Office Fund is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated Fund's financial position as at 31 December 2015 and of its performance for the period ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Mark Conroy
Partner
Sydney
18 February 2016