

360 CAPITAL INDUSTRIAL FUND

Interim Financial Report
FOR THE HALF YEAR ENDED 31 DECEMBER 2015



360 CAPITAL INDUSTRIAL FUND

Interim Financial Report For the half year ended 31 December 2015

360 Capital Industrial Fund comprises 360 Capital Industrial Fund (ARSN 099 680 252) and its controlled entities.

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Cover image: 24-32 Stanley Drive, Somerton, 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 Industrial Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

360 Capital Industrial 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 Industrial Fund (ARSN 099 680 252) and its controlled entities (“the Fund”) (ASX:TIX) for the half year ended 31 December 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

The principal continuing activity of the Fund was investment in industrial 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 half year ended 31 December 2015 was \$1.6 million (December 2014: \$14.7 million). The operating profit (profit before specific non-cash items and significant items) was \$24.9 million (December 2014: \$11.5 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 7: Segment reporting of the financial statements for the half year ended 31 December 2015, which have been subject to review, refer to page 30 for the auditor’s review report on the financial statements.

360 Capital Industrial 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 | 1,621 | 14,743 |
| Specific non-cash items | | |
| Net loss/(gain) on fair value of investment properties | 724 | (6,916) |
| Net loss on fair value of derivative financial instruments | 1,864 | 2,999 |
| Amortisation of borrowing costs | 597 | 495 |
| Straight-lining of lease revenue | (342) | (405) |
| Amortisation of incentives and leasing fees | 452 | 241 |
| Rental guarantee cash received | 54 | - |
| Loss on fair value of financial assets | 4,951 | - |
| Business combination transaction costs | 8,145 | - |
| Significant items | | |
| Loss on termination of derivative financial instruments | - | 236 |
| Net loss on sale of investment property | 138 | 133 |
| Operating profit (profit before specific non-cash and significant items) | 18,204 | 11,526 |
| Pro forma operating profit of ANI ¹ | 6,648 | - |
| Operating profit (including pro forma adjustments) | 24,852 | 11,526 |

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

- Statutory net profit attributable to the unitholders of the Fund of \$1.6 million, representing 0.9 cents per unit (“cpu”);
- Operating profit increased by 17.0% to 11.7 cpu;
- Distributions increased by 8.9% to 10.75 cpu;
- Net tangible assets (“NTA”) increased by 30.8% to \$466.4 million;
- Raised \$140.4 million of capital through the completion of the ANI Acquisition².

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

- Completion of the ANI Acquisition on 1 December 2015, now the largest pure rent collecting industrial A-REIT with property assets of \$867.0 million;
- Leased 30,706 square meters (“sqm”) in the period with a further 66,948 sqm subject to advanced negotiations;
- Occupancy of 99.4%;
- Disposed of \$10.5 million non-core assets; and
- Portfolio WACR³ of 7.9%.

1. Pro forma operating profit of ANI represents the net profit of ANI adjusted for specific non-cash and significant items prior to consolidation with TIX. This adjustment allows for a comparison of operating profit to pro forma earnings included in the TIX Offer Bidders Statement and allows for a more meaningful comparison with earnings in future years. The pro forma adjustment illustrates the overall operating profit of the combined Funds from 1 July 2015 to 31 December 2015 as if the consolidation had occurred on 1 July 2015.
2. ANI Acquisition: the formal, off market, takeover offer (“Offer”) for all the units in the Australian Industrial REIT (ASX: “ANI”) which was completed on 1 December 2015.
3. WACR: Weighted average capitalisation rate

360 Capital Industrial Fund and its controlled entities

Responsible Entity report

For the half year ended 31 December 2015

Financial results

Statutory net profit of \$1.6 million was 89.0% below the prior period primarily driven by one off transaction costs in relation to the ANI Acquisition. Operating earnings of \$24.9 million was 115.6% up on the prior period driven by higher property income from acquisitions, fixed rental increases, lower finance costs and the ANI Acquisition. Operating earnings includes a pro forma adjustment to reflect 100.0% of ANI's operating earnings prior to consolidation. Underlying earnings certainty and the ANI Acquisition has provided distributions per unit ("DPU") growth of 8.9% on the prior period to 10.8 cpu.

During the period, total assets of the Fund increased by \$259.6 million (41.7%) to \$882.8 million due to the acquisition of ANI's assets totalling \$334.1 million. After raising \$140.4 million of equity and issuing an additional 59.5 million units through the scrip component of the ANI Acquisition, the Fund's NTA has increased 30.8% during the period to \$466.4 million.

ANI transaction

The compulsory acquisition of ANI was completed on 1 December 2015. An additional 16 properties have been integrated into the existing portfolio of 21 properties. The transaction represented an equivalent property yield of 8.3%.

The Fund's focus is now on the consolidation of the ANI transaction and delivering on its strategy. The Fund has commenced addressing near term expiries and has progressed negotiations on over 66,948 sqm or 9.6% of the total portfolio.

Property portfolio

The Fund's portfolio now comprises 37 industrial assets and has increased its exposure to the strong economy of New South Wales ("NSW") to 43.5% (by value) and improved the scale and diversity of the portfolio as a result of the ANI Acquisition.

The ANI transaction brought with it an additional 19 tenants of which 2 tenants (Visy and Greens) crossed over with the existing TIX portfolio. Major tenants include Visy, Orora, Garmin, Chevron, Australia Post, Australian Pet Supplies and K&S Freighters.

Like for like net property income increased by 4.9% for the period reflective of the Fund's underlying income profile of having over 90.0% of the property portfolio subject to fixed rent reviews averaging 3.3% and the releasing of vacant space at 69 Studley Court, Derrimut VIC.

Since acquiring ANI, negotiations with tenants representing over 66,948 sqm or 9.6% of the total portfolio have been progressed. Financial Year 2016 ("FY16") lease expiries have been largely dealt with. Pending expiries will be a key focus for the Fund over the coming 6 months. In FY17, 18.5% of the portfolio is due to expire, however advanced negotiations are underway on over 52.0% of these expiries. TIX has a strong track record of dealing with lease expiries early and this has helped the portfolio maintain high occupancy and a long weighted average lease expiry ("WALE").

Approximately \$50.0 million of non-core assets have been identified for disposal over the course of FY17, subject to the outcome of current leasing campaigns. Apart from the ANI transaction concluding in the period, no other acquisitions were made by the Fund and there is no focus on any other portfolio acquisitions at this time.

One non-core property, 33-59 Clarinda Road, Oakleigh South VIC was sold for \$10.5 million on 18 December 2015 with net proceeds used to reduce debt.

No independent valuations were undertaken in the period with 90.4% of the portfolio (by value) having been valued since October 2014. The Fund's weighted average capitalisation rate stands at 7.9% at the date of this report.

360 Capital Industrial Fund and its controlled entities

Responsible Entity report

For the half year ended 31 December 2015

Capital management

A total of \$140.4 million of equity (59.5 million units) was issued in the period as part consideration of the ANI Acquisition. The Fund now has a total of 211,957,288 units on issue. As a result of the additional units issued, the Fund's NTA per unit has decreased in the period to \$2.20 per unit despite NTA increasing to \$466.4 million.

Subsequent to balance date the Fund renegotiated its syndicated debt facility to \$420.0 million, with NAB increasing its facility to \$250.0 million and Bankwest increasing its facility to \$170.0 million. The ANI debt facility of \$130.0 million was repaid and integrated into the TIX syndicated debt facility. A new \$80.0 million interest rate swap agreement was entered into with Bankwest. The Fund's interest rate hedge book now totals \$400.0 million and reflects an average rate of 2.5% (excluding any margins). The interest rate swaps are hedged for an average of 3.5 years bringing the Fund's all in interest cost to approximately 3.8%. The Fund remains comfortably within its debt facilities' covenants.

The market capitalisation of the fund is approximately \$517.0 million with TIX's inclusion in the S&P/ASX 200 possible in the future.

Net current liabilities position

The Directors of the Fund note that the Fund was in a net current liabilities position of \$135.7 million primarily due to the ANI debt facility being classified as current. The change in control of the ANI Fund during the period gave rise to a review event under its debt facility. Prior to balance date the Fund received a waiver associated with the review event until mid-February 2016, allowing the Fund time to renegotiate its debt facilities. Whilst the Fund had received a waiver in relation to the ANI debt facility, the bank retained the right to demand repayment of the facility if an agreement was not reached. Prior to the expiry of the waiver the Fund renegotiated its syndicated debt facility and repaid the ANI facility in full (as discussed above). The remainder of the deficit in net current assets relates to ongoing operational working capital management procedures with respect 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 draw down funds when needed, having available headroom in the Fund's debt facilities at balance date.

Outlook and guidance

The Fund's strategy remains unchanged with a focus on acquiring and managing passive industrial assets. The key focus for the Fund is to ensure the smooth and effective integration of the recently acquired portfolio and addressing short and medium term expiries which will enhance earnings certainty. The Fund remains committed to growing EPU and DPU for unitholders.

Distributions

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

| | 31 December 2015 \$'000 | 31 December 2014 \$'000 |
|--|--|--|
| September 2014 quarter 4.8 cents per unit paid 24 October 2014 | - | 5,748 |
| December 2014 quarter 5.0675 cents per unit paid 27 January 2015 | - | 6,202 |
| September 2015 quarter 5.375 cents per unit paid 23 October 2015 | 10,227 | - |
| December 2015 quarter 5.375 cents per unit paid 27 January 2016 | 11,393 | - |
| Total distributions | 21,620 | 11,950 |

Distribution reinvestment plan

The Responsible Entity did not activate the DRP during the half year ended 31 December 2015 (31 December 2014: \$5.7 million).

360 Capital Industrial Fund and its controlled entities

Responsible Entity report

For the half year ended 31 December 2015

Number of units on issue

During the period ended 31 December 2015, the Fund issued 59.5 million units as part consideration for the ANI Acquisition. The total number of units on issue in the Fund as at 31 December 2015 was 211,957,288 (30 June 2015: 152,457,544).

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 15 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 15 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 period 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 industrial 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.

Events subsequent to balance date

On 8 February 2016, ANI was deregistered as a managed investment scheme and 360 Capital ANI Management Limited was replaced by 360 Capital Investment Management Limited as Trustee.

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.

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

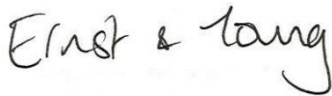
Sydney
24 February 2016

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

As lead auditor for the review of 360 Capital Industrial 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 Industrial Fund and the entities it controlled during the financial period.



Ernst & Young



Mark Conroy
Partner
24 February 2016

360 Capital Industrial 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 | 31 December |
|--|-------------|--------------------|--------------------|
| | | 2015 | 2014 |
| | Note | \$'000 | \$'000 |
| Revenue from continuing operations | | | |
| Rental income | 3 | 32,682 | 21,584 |
| Finance revenue | | 87 | 64 |
| Total revenue from continuing operations | | 32,769 | 21,648 |
| Other income | | | |
| Net gain on fair value of investment properties | 4 | - | 6,916 |
| Total other income | | - | 6,916 |
| Total revenue from continuing operations and other income | | 32,769 | 28,564 |
| Investment property expenses | | 5,086 | 3,807 |
| Management fees | 15 | 2,612 | 1,528 |
| Administration expenses | | 423 | 241 |
| Net loss on fair value of investment properties | 4 | 724 | - |
| Net Loss on sale of investment properties | | 138 | 133 |
| Net loss on fair value of derivative financial instruments | | 1,864 | 2,999 |
| Loss on termination of derivative financial instruments | | - | 236 |
| Loss on fair value of financial assets | 14 | 4,951 | - |
| Business combination transaction costs | 14 | 8,145 | - |
| Finance costs | 5 | 6,812 | 4,877 |
| Net profit from continuing operations | | 2,014 | 14,743 |
| Total comprehensive income for the half year | | 2,014 | 14,743 |
| Total comprehensive income attributable to: | | | |
| Unitholders of the Fund | | 1,621 | 14,743 |
| External non-controlling interests | | 393 | - |
| Total comprehensive income for the half year | | 2,014 | 14,743 |
| Earnings per unit attributable to unitholders of the Fund - | | | |
| basic and diluted - cents per unit | 6 | 0.9 | 12.8 |

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

360 Capital Industrial 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 | | 5,743 | 6,329 |
| Receivables | | 2,433 | 4,164 |
| Investment property – held for sale | 8 | - | 10,500 |
| Total current assets | | 8,176 | 20,993 |
| Non-current assets | | | |
| Investment properties | 9 | 867,000 | 533,400 |
| Financial Assets at fair value through profit or loss | 14 | - | 68,807 |
| Goodwill | 14 | 7,613 | - |
| Total non-current assets | | 874,613 | 602,207 |
| Total assets | | 882,789 | 623,200 |
| Current liabilities | | | |
| Trade and other payables | | 9,461 | 4,133 |
| Distribution payable | | 11,393 | 9,249 |
| Borrowings | 10 | 123,000 | - |
| Total current liabilities | | 143,854 | 13,382 |
| Non-current liabilities | | | |
| Borrowings | 10 | 259,742 | 251,747 |
| Derivative financial instruments | | 5,162 | 1,566 |
| Total non-current liabilities | | 264,904 | 253,313 |
| Total liabilities | | 408,758 | 266,695 |
| Net assets | | 474,031 | 356,505 |
| Equity | | | |
| Issued units | 11 | 538,959 | 398,630 |
| Accumulated losses | | (64,928) | (42,125) |
| Total equity | | 474,031 | 356,505 |

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

360 Capital Industrial 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 attributable to unitholders of the Fund \$'000 | External non- controlling interests \$'000 | Total equity \$'000 |
|---|------|------------------------|---------------------------------|---|---|---------------------------|
| Balance at 1 July 2015 | | 398,630 | (42,125) | 356,505 | - | 356,505 |
| Total comprehensive income for the half year | | - | 1,621 | 1,621 | 393 | 2,014 |
| Recognition of external non-controlling interests | 14 | - | - | - | 51,467 | 51,467 |
| Acquisition of external non-controlling interests | 14 | - | (2,804) | (2,804) | (51,860) | (54,664) |
| Transactions with unitholders in their capacity as unitholders | | | | | | |
| Units issued | 11 | 140,397 | - | 140,397 | - | 140,397 |
| Equity raising cost | 11 | (68) | - | (68) | - | (68) |
| Distributions paid and payable | 2 | - | (21,620) | (21,620) | - | (21,620) |
| | | 140,329 | (21,620) | 118,709 | - | 118,709 |
| Balance at 31 December 2015 | | 538,959 | (64,928) | 474,031 | - | 474,031 |
| Balance at 1 July 2014 | | | | | | |
| | | 260,431 | (58,515) | 201,916 | - | 201,916 |
| Total comprehensive income for the half year | | - | 14,743 | 14,743 | - | 14,743 |
| Transactions with unitholders in their capacity as unitholders | | | | | | |
| Units issued | | 61,010 | - | 61,010 | - | 61,010 |
| Units issued under DRP | | 5,748 | - | 5,748 | - | 5,748 |
| Equity raising cost | | (2,912) | - | (2,912) | - | (2,912) |
| Distributions paid and payable | | - | (11,950) | (11,950) | - | (11,950) |
| | | 63,846 | (11,950) | 51,896 | - | 51,896 |
| Balance at 31 December 2014 | | 324,277 | (55,722) | 268,555 | - | 268,555 |

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

360 Capital Industrial Fund and its controlled entities

Consolidated interim statement of cash flows

For the half year ended 31 December 2015

| | | 31 December 2015 \$'000 | 31 December 2014 \$'000 |
|--|-----------|-------------------------------|-------------------------------|
| | Note | | |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 36,125 | 24,594 |
| Payments to suppliers (inclusive of GST) | | (11,015) | (7,528) |
| Finance revenue | | 87 | 64 |
| Finance costs | | (5,771) | (4,356) |
| Net cash inflows from operating activities | 13 | 19,426 | 12,774 |
| Cash flows from investing activities | | | |
| Payments for additions to investment properties | | (589) | (517) |
| Payments of leasing fees and incentives | | (118) | (1,295) |
| Payments for acquisition of investment properties | | (2,956) | (139,433) |
| Proceeds from disposal of investment properties | | 10,362 | 4,367 |
| Distributions received | | 2,897 | - |
| Payments for financial assets | | (3,780) | - |
| Payments for subsidiaries – net of cash acquired | 14 | (3,411) | - |
| Payments for external non-controlling interests | 14 | (3,487) | - |
| Payments of business combination transaction costs | | (6,900) | - |
| Payments of ANI defence costs incurred prior to acquisition | | (2,884) | - |
| Net cash outflows from investing activities | | (10,866) | (136,878) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | 10 | 27,500 | 89,000 |
| Repayment of borrowings | 10 | (17,100) | (19,340) |
| Proceeds from issue of capital | | - | 66,758 |
| Payment of transaction costs to issue capital | 11 | (68) | (2,912) |
| Payments for borrowing costs | | (2) | (1,014) |
| Payments to terminate derivative financial instruments | | - | (1,092) |
| Distributions paid to unitholders | | (19,476) | (10,004) |
| Net cash (outflows)/inflows from financing activities | | (9,146) | 121,396 |
| Net decrease in cash and cash equivalents | | (586) | (2,708) |
| Cash and cash equivalents at the beginning of the half year | | 6,329 | 5,749 |
| Cash and cash equivalents at the end of the half year | | 5,743 | 3,041 |

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

360 Capital Industrial Fund and its controlled entities

Condensed notes to the interim financial report

For the half year ended 31 December 2015

Note 1: Statement of significant accounting policies

a) 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 Industrial 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 24 February 2016.

The interim financial report has been prepared on a going concern basis. The Directors of the Fund note that the Fund was in a net current liabilities position of \$135.7 million primarily due to the ANI debt facility being classified as current. The change in control of the ANI Fund during the period gave rise to a review event under its debt facility. Prior to balance date the Fund received a waiver associated with the review event until mid-February 2016, allowing the Fund time to renegotiate its debt facilities. Whilst the Fund had received a waiver in relation to the ANI debt facility, the bank retained the right to demand repayment of the facility if an agreement was not reached. Prior to the expiry of the waiver the Fund renegotiated its syndicated debt facility and repaid the ANI facility in full. The remainder of the deficit in net current assets relates to ongoing operational working capital management procedures with respect 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 draw down funds when needed, having available headroom in the Fund's debt facilities 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, and have been updated where necessary for new policies implemented as a result of the ANI Acquisition set out below.

b) Basis of consolidation

The consolidated interim financial statements comprise the financial statements of the Fund and its subsidiaries as at 31 December 2015. Control is achieved when the Fund 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.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim consolidated financial statements from the date the Fund gains control until the date the Fund ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the unitholders of the Fund and to the non-controlling interests. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Fund's accounting policies. All intra-Fund assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Fund are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

360 Capital Industrial Fund and its controlled entities

Condensed notes to the interim financial report

For the half year ended 31 December 2015

Note 1: Statement of significant accounting policies (continued)

c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Fund elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Fund acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Note 2: Distributions

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

| | 31 December 2015 \$'000 | 31 December 2014 \$'000 |
|--|-------------------------------|-------------------------------|
| September 2014 quarter 4.8 cents per unit paid 24 October 2014 | - | 5,748 |
| December 2014 quarter 5.0675 cents per unit paid 27 January 2015 | - | 6,202 |
| September 2015 quarter 5.375 cents per unit paid 23 October 2015 | 10,227 | - |
| December 2015 quarter 5.375 cents per unit paid 27 January 2016 | 11,393 | - |
| Total distributions | 21,620 | 11,950 |

Note 3: Rental income

| | \$'000 | \$'000 |
|---|---------------|---------------|
| Rent | 32,792 | 21,420 |
| Straight-lining of lease revenue | 342 | 405 |
| Amortisation of incentives and leasing fees | (452) | (241) |
| | 32,682 | 21,584 |

Note 4: Net loss/(gain) on fair value of investment properties

| | Note | \$'000 | \$'000 |
|---|------|------------|----------------|
| Fair value gain of non-current assets held for sale | | (34) | - |
| Fair value loss/(gain) of investment properties | 9 | 758 | (6,916) |
| | | 724 | (6,916) |

360 Capital Industrial Fund and its controlled entities

Condensed notes to the interim financial report

For the half year ended 31 December 2015

Note 5: Finance costs

| | 31 December 2015 \$'000 | 31 December 2014 \$'000 |
|--|-------------------------------|-------------------------------|
| Interest paid or payable on debt facilities | 6,215 | 4,382 |
| Amortisation of capitalised borrowing costs on debt facilities | 597 | 495 |
| | 6,812 | 4,877 |

Note 6: Earnings per unit

| | 31 December 2015 ¢ | 31 December 2014 ¢ |
|---|--------------------------|--------------------------|
| Basic and diluted earnings per unit attributable to unitholders of the Fund | 0.9 | 12.8 |
| | \$'000 | \$'000 |
| Basic and diluted earnings | | |
| Net profit attributable to unitholders of the Fund | 1,621 | 14,743 |
| | 000's | 000's |
| Weighted average number of units | | |
| Weighted average number of units | 176,395 | 115,395 |

Note 7: Segment reporting

The Fund invests solely in industrial 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.

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Note 7: 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 2015 \$'000 | 31 December 2014 \$'000 |
|--|--|--|
| Profit attributable to the unitholders of the Fund | 1,621 | 14,743 |
| Specific non-cash items | | |
| Net loss/(gain) on fair value of investment properties | 724 | (6,916) |
| Net loss on fair value of derivative financial instruments | 1,864 | 2,999 |
| Amortisation of borrowing costs | 597 | 495 |
| Straight-lining of lease revenue | (342) | (405) |
| Amortisation of incentives and leasing fees | 452 | 241 |
| Rental guarantee cash received | 54 | - |
| Loss on fair value of financial assets | 4,951 | - |
| Business combination transaction costs | 8,145 | - |
| Significant items | | |
| Loss on termination of derivative financial instruments | - | 236 |
| Net loss on sale of investment property | 138 | 133 |
| Operating profit (profit before specific non-cash and significant items) | 18,204 | 11,526 |
| Pro forma operating profit of ANI ¹ | 6,648 | - |
| Operating profit (including pro forma adjustments) | 24,852 | 11,526 |
| | | |
| Weighted average number of units ('000) used for operating earnings ² | 211,957 | 115,395 |
| Operating profit per unit (including pro forma adjustments) (EPU) | 11.7 | 10.0 |

1. Pro forma operating profit of ANI represents the net profit of ANI adjusted for specific non-cash and significant items prior to consolidation with TIX. This adjustment allows for a comparison of operating profit to pro forma earnings included in the TIX Offer Bidders Statement and allows for a more meaningful comparison with earnings in future years. The pro forma adjustment illustrates the overall operating profit of the combined Funds from 1 July 2015 to 31 December 2015 as if the consolidation had occurred on 1 July 2015.

2. The weighted average number of units for the half year ended 31 December 2015 is calculated using the full number of units on issue post the compulsory acquisition of ANI, which is considered appropriate when applied against the pro forma combined operating profit of ANI and TIX for the full period from 1 July to 31 December 2015.

Note 8: Investment property - held for sale

| | 31 December 2015 \$'000 | 30 June 2015 \$'000 |
|--|--|------------------------------------|
| 33-59 Clarinda Road, South Oakleigh, VIC | - | 10,500 |
| | - | 10,500 |
| Less: lease income receivable | - | (42) |
| | - | 10,458 |

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.

On 18 December 2015, 33-59 Clarinda Road, Oakleigh South VIC was sold for \$10.5 million with net proceeds used to reduce debt.

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Note 9: Investment properties

| | Date of acquisition | Book value | | Cap rate | | Discount rate | | Date of last external valuation | Last external valuation \$'000 |
|---|---------------------|-------------------------|---------------------|--------------------|----------------|--------------------|----------------|---------------------------------|--------------------------------|
| | | 31 December 2015 \$'000 | 30 June 2015 \$'000 | 31 December 2015 % | 30 June 2015 % | 31 December 2015 % | 30 June 2015 % | | |
| Investment property valuations | | | | | | | | | |
| 12-13 Dansu Court, Hallam, VIC | Dec 03 | 13,650 | 13,650 | 7.75 | 7.75 | 8.75 | 8.75 | Mar 15 | 13,650 |
| 14-17 Dansu Court, Hallam, VIC | Dec 03 | 16,250 | 16,250 | 7.75 | 7.75 | 8.75 | 8.75 | Mar 15 | 16,250 |
| 39-45 Wedgewood Road, Hallam, VIC | Dec 03 | 8,500 | 8,500 | 8.25 | 8.25 | 9.75 | 9.75 | Apr 14 | 8,500 |
| 310 Spearwood Avenue, Bibra Lake, WA | May 05 | 50,000 | 50,000 | 8.50 | 8.50 | 10.25 | 10.25 | Oct 14 | 50,000 |
| 6 Albert Street, Preston, VIC | Mar 06 | 25,400 | 25,400 | 8.00 | 8.00 | 9.00 | 9.00 | Mar 15 | 25,400 |
| 102-128 Bridge Road, Keysborough, VIC | Jul 06 | 29,200 | 29,200 | 8.00 | 8.00 | 9.00 | 9.00 | Mar 15 | 29,200 |
| 60 Marple Avenue, Villawood, NSW | Feb 07 | 20,000 | 20,000 | 8.75 | 8.75 | 9.75 | 9.75 | Apr 14 | 20,000 |
| 500 Princes Highway, Noble Park, VIC | Oct 07 | 20,000 | 20,000 | 8.75 | 8.75 | 9.75 | 9.75 | Apr 14 | 20,000 |
| 8 Penelope Crescent, Arndell Park, NSW | Nov 07 | 14,500 | 14,500 | 8.50 | 8.50 | 9.75 | 9.75 | Apr 14 | 14,500 |
| 37-51 Scrivener Street, Warwick Farm, NSW | Jan 08 | 24,700 | 24,700 | 8.50 | 8.50 | 9.50 | 9.50 | Mar 15 | 24,700 |
| 54 Sawmill Circuit, Hume, ACT | Jun 12 | 14,500 | 14,500 | 7.75 | 7.75 | 9.25 | 9.25 | Oct 14 | 14,500 |
| 9-13 Caribou Drive, Direk, SA | Jun 12 | 9,800 | 9,800 | 8.25 | 8.25 | 9.25 | 9.25 | Mar 15 | 9,800 |
| 22 Hawkins Crescent, Bundamba, QLD | Jun 12 | 40,500 | 40,500 | 7.50 | 7.50 | 8.75 | 8.75 | Mar 15 | 40,500 |
| 1 Ashburn Road, Bundamba, QLD | Jun 12 | 35,000 | 35,000 | 8.00 | 8.00 | 9.25 | 9.25 | Oct 14 | 35,000 |
| 457 Waterloo Road, Chullora, NSW | Jun 13 | 24,300 | 24,300 | 7.00 | 7.00 | 8.75 | 8.75 | Mar 15 | 24,300 |
| 69 Studley Court, Derrimut, VIC | Jun 13 | 20,400 | 20,400 | 7.50 | 7.50 | 9.00 | 9.00 | Apr 14 | 21,000 |
| 2 Woolworths Way, Warnervale, NSW | Jul 14 | 76,500 | 76,500 | 7.50 | 7.50 | 9.00 | 9.00 | Mar 15 | 76,500 |
| 21 Jay Street, Mount St John, Townsville, QLD | Jul 14 | 10,200 | 10,200 | 8.00 | 8.00 | 8.75 | 8.75 | Mar 15 | 10,200 |
| 33-37 Mica Street, Carole Park, QLD | Sep 14 | 25,500 | 25,500 | 7.50 | 7.50 | 9.50 | 9.50 | Mar 15 | 25,500 |
| 69 Rivergate Place, Murarrie, QLD | Dec 14 | 28,250 | 28,250 | 7.25 | 7.25 | 8.50 | 8.50 | Mar 15 | 28,250 |
| 136 Zillmere Road, Boondall, QLD | Jan 15 | 26,250 | 26,250 | 8.50 | 8.25 | 9.00 | 9.00 | Mar 15 | 26,250 |

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Note 9: Investment properties (continued)

| | Date of acquisition | Book value | | Cap rate | | Discount rate | | Date of last external valuation | Last external valuation \$'000 |
|---|---------------------|-------------------------|---------------------|--------------------|----------------|--------------------|----------------|---------------------------------|--------------------------------|
| | | 31 December 2015 \$'000 | 30 June 2015 \$'000 | 31 December 2015 % | 30 June 2015 % | 31 December 2015 % | 30 June 2015 % | | |
| 92-98 Cosgrove Road, Enfield, NSW ¹ | Oct 15 | 36,500 | - | 8.00 | - | 9.50 | - | Dec 14 | 36,000 |
| 10 Williamson Road, Ingleburn, NSW ¹ | Oct 15 | 35,000 | - | 7.75 | - | 9.25 | - | Jun 15 | 35,000 |
| 12 Williamson Road, Ingleburn, NSW ¹ | Oct 15 | 33,000 | - | 7.50 | - | 9.25 | - | Dec 14 | 32,500 |
| 29 Glendenning Road, Glendenning, NSW ¹ | Oct 15 | 34,500 | - | 7.00 | - | 9.25 | - | Jun 15 | 34,500 |
| 74-94 Newton Road, Wetherill Park, NSW ¹ | Oct 15 | 24,100 | - | 8.00 | - | 9.75 | - | Jun 15 | 24,100 |
| 6 Macdonald Road, Ingleburn, NSW ¹ | Oct 15 | 17,500 | - | 7.50 | - | 9.00 | - | Dec 14 | 16,750 |
| 30 Clay Place, Eastern Creek, NSW ¹ | Oct 15 | 15,400 | - | 6.75 | - | 9.25 | - | Dec 14 | 15,000 |
| 52-74 Quarry Road, Erskine Park, NSW ¹ | Oct 15 | 14,400 | - | 7.50 | - | 9.25 | - | Dec 14 | 13,950 |
| 75 Owen Street, Glendenning, NSW ¹ | Oct 15 | 7,000 | - | 7.50 | - | 9.00 | - | Dec 14 | 6,875 |
| 24-32 Stanley Drive, Somerton, VIC ¹ | Oct 15 | 27,000 | - | 8.25 | - | 9.25 | - | Dec 14 | 26,500 |
| 324-332 Frankston-Dandenong Road, Dandenong South, VIC ¹ | Oct 15 | 26,500 | - | 7.75 | - | 8.75 | - | Jun 15 | 26,000 |
| 49 Temple Drive, Thomastown, VIC ¹ | Oct 15 | 13,000 | - | 8.75 | - | 9.25 | - | Jun 15 | 13,000 |
| 2 Keon Parade, Keon Park, VIC ¹ | Oct 15 | 13,000 | - | 8.75 | - | 9.25 | - | Jun 15 | 10,000 |
| 9 Fellowes Court, Tullamarine, VIC ¹ | Oct 15 | 3,400 | - | 8.00 | - | 9.50 | - | Dec 14 | 3,250 |
| 23 Selkis Road, Bibra Lake, WA ¹ | Oct 15 | 17,100 | - | 9.25 | - | 9.25 | - | Jun 15 | 17,100 |
| 99 Quill Way, Henderson, WA ¹ | Oct 15 | 16,200 | - | 9.00 | - | 9.25 | - | Dec 14 | 16,200 |
| Total | | 867,000 | 533,400 | | | | | | |
| less: lease income receivable | | (10,086) | (9,936) | | | | | | |
| | | 856,914 | 523,464 | | | | | | |

¹ Property acquired through the ANI Acquisition.

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Note 9: Investment Properties (continued)

| | Note | 31 December 2015 \$'000 | 30 June 2015 \$'000 |
|--|------|-------------------------------|---------------------------|
| Movement during the period: | | | |
| Opening balance as at 1 July | | 533,400 | 353,800 |
| Properties acquired through the ANI Acquisition | 14 | 331,326 | - |
| Transfer to Non-current assets held for sale | | - | (10,500) |
| Additions to investment properties | | 413 | 1,173 |
| Acquisitions of investment properties and associated costs | | 2,629 | 164,919 |
| Net (loss)/gain on fair value of investment properties | | (758) | 21,727 |
| Straight-lining of lease revenue | | 370 | 1,142 |
| Payments of incentives and leasing fees | | 118 | 1,744 |
| Amortisation of incentives and leasing fees | | (444) | (605) |
| Rental guarantee cash received | | (54) | - |
| Closing balance | | 867,000 | 533,400 |

Upon gaining control of the ANI Fund on 12 October 2015 ("Acquisition date"), a total of 16 investment properties totalling \$331.3 million were acquired. For more detail on the ANI Acquisition refer to Note 14.

As part of the investment property portfolio obtained through the ANI Acquisition, the building situated at 2 Keon Parade, Keon Park, VIC was contracted to undertake an alterations and extensions project totalling \$9.4 million, estimated to be practically complete by August 2016. Subsequent to the ANI Acquisition, \$2.6 million in development costs have been incurred and capitalised to the property value with a further \$6.5 million contracted to still be completed post balance date.

Note 10: Borrowings

| | 31 December 2015 \$'000 | 30 June 2015 \$'000 |
|--|-------------------------------|---------------------------|
| Current | | |
| Borrowings - secured | 123,000 | - |
| Total current | 123,000 | - |
| Non-current | | |
| Borrowings – secured | 260,400 | 253,000 |
| Capitalised borrowing costs | (658) | (1,253) |
| Total non-current | 259,742 | 251,747 |
| Total | 382,742 | 251,747 |
| Borrowings - secured | | |
| Total facilities' limits | 435,000 | 305,000 |
| Used at end of reporting date | 383,400 | 253,000 |
| Unused at end of reporting date | 51,600 | 52,000 |

360 Capital Industrial 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 2015 \$'000 | 30 June 2015 \$'000 |
|---|------|-------------------------------|---------------------------|
| | Note | | |
| Movement during the period: | | | |
| Opening balance as at 1 July | | 253,000 | 157,340 |
| Borrowings acquired through the ANI Acquisition | 14 | 120,000 | - |
| Repayment of facilities during the period | | (17,100) | (19,340) |
| Draw downs of facilities during the period | | 27,500 | 115,000 |
| Closing balance | | 383,400 | 253,000 |

a) Loan facilities summary

NAB and Bankwest syndicated debt facility

At balance date the syndicated facility with NAB and Bankwest was drawn to \$260.4 million (June 2015: \$253.0 million) with a total facility limit of \$305.0 million.

ANI NAB facility

Upon gaining control of ANI on 12 October 2015, ANI's NAB facility of \$130.0 million and ANI's \$90.0 million interest rate swap agreements were incorporated into the borrowings of the Fund. This facility is due to expire in March 2019 and was drawn to \$120.0 million on Acquisition date. Further drawdowns on the facility increased the drawn amount to \$123.0 million by balance date.

At balance date, this facility was classified as a current liability. The change in control of the ANI Fund during the period gave rise to a review event under its debt facility. Prior to balance date the Fund received a waiver associated with the review event until mid-February 2016, allowing the Fund time to renegotiate its debt facilities. Whilst the Fund had received a waiver in relation to the ANI debt facility, the bank retained the right to demand repayment of the facility if an agreement was not reached. Prior to the expiry of the waiver the Fund renegotiated its syndicated debt facility and repaid the ANI facility in full (discussed below).

Renegotiated syndicated debt facility

Subsequent to balance date the Fund renegotiated its syndicated facility limit to \$420.0 million, with NAB increasing its facility to \$250.0 million and Bankwest increasing its facility to \$170.0 million. The majority of the renegotiated syndicated debt facility of \$325.0 million will expire in line with the existing expiry in December 2017 and the new \$95.0 million Bankwest tranche will expire in February 2019. The ANI debt facility of \$130.0 million was repaid and integrated into the Fund's syndicated debt facility. A new \$80.0 million interest rate swap agreement was entered into with Bankwest. The Fund's interest rate hedge book now totals \$400.0 million.

b) Funding Covenants

All loan facilities are subject to standard commercial covenants consistent with the type of loan including Loan Value Ratio ("LVR"), Interest Cover Ratio ("ICR") & Negative Variations. At the date of this report, the Fund complies with all debt covenants and did at all times during the period.

360 Capital Industrial Fund and its controlled entities

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Note 10: Borrowings (continued)

As at 31 December 2015 the Syndicated debt facility was drawn to \$260.4 million, which represents a LVR of 48.8% based on the most recent attributable external valuations adopted by the banking syndicate, which complied with the bank covenant of less than 55.0%. Based on the most recent external valuations adopted on the ANI property portfolio, the attributable NAB facility's LVR was 37.6% which complied with the bank covenant of less than 50.0% at balance date.

As at 31 December 2015 the ICR was calculated to be 4.2 times for the syndicated debt facility, which complied with the bank covenant of nothing less than 1.6 times. Similarly, the ICR on the ANI NAB facility was calculated to be 6.11 times which complied with the bank covenant of nothing less than 2.0 times.

Note 11: Equity

(a) Issued Units

| | 31 December 2015 000's | 30 June 2015 000's |
|---|------------------------------|--------------------------|
| 360 Capital Industrial Fund - Ordinary units issued | 211,957 | 152,458 |
| | \$'000 | \$'000 |
| 360 Capital Industrial Fund - Ordinary units issued | 538,959 | 398,630 |

(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:

| | 000's | 000's |
|---------------------------------------|----------------|---------|
| Opening balance as at 1 July | 152,458 | 91,520 |
| Equity issued through DRP | - | 5,533 |
| Equity issued through capital raise | - | 28,245 |
| Equity issued through ANI Acquisition | 59,499 | 27,160 |
| Closing balance | 211,957 | 152,458 |

360 Capital Industrial Fund and its controlled entities
Condensed notes to the interim financial report
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Note 11: Equity (continued)

Movement in value of issued units:

| | 31 December 2015 \$'000 | 30 June 2015 \$'000 |
|---------------------------------------|--|------------------------------------|
| Opening balance as at 1 July | 398,630 | 260,431 |
| Equity Issued through DRP | - | 12,986 |
| Equity issued through capital raise | - | 61,010 |
| Equity issued through ANI Acquisition | 140,397 | 67,223 |
| Equity raising cost | (68) | (3,020) |
| Closing balance | 538,959 | 398,630 |

Pursuant to the ANI Acquisition (described in more detail in Note 14), the Fund issued 59,499,744 units (valued at \$140.4 million based on the daily market trading rates of TIX at the date of each issue) during the period ended 31 December 2015. The Offer terms included that the Fund would issue 0.9 TIX units for every ANI unit held by ANI unitholders that accepted the Offer. The Offer was completed on 1 December 2015 through a compulsory acquisition process resulting in the Fund owning 100.0% of the issued capital of ANI.

Note 12: Financial instruments

Fair values

The fair values of all financial instruments with the exception of non-current borrowings approximate their carrying values. This is largely due to the short-term maturities of these instruments. The fair value of non-current 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 non-current borrowings at balance date:

| | Carrying amount | | Fair value | |
|--|--|------------------------------------|--|------------------------------------|
| | 31 December 2015 \$'000 | 30 June 2015 \$'000 | 31 December 2015 \$'000 | 30 June 2015 \$'000 |
| Non-current financial liabilities | | | | |
| Borrowings | 259,742 | 251,747 | 260,400 | 253,000 |
| Total non-current financial liabilities | 259,742 | 251,747 | 260,400 | 253,000 |

360 Capital Industrial Fund and its controlled entities
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Note 12: Financial instruments (continued)

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 |
|---|-----------------|-------------------|-------------------|-------------------|
| As at 31 December 2015: | | | | |
| Financial liabilities measured at fair value | | | | |
| Derivative financial instruments | 5,162 | - | 5,162 | - |
| As at 30 June 2015: | | | | |
| Financial assets measured at fair value | | | | |
| Financial assets at fair value through profit or loss | 68,807 | 68,807 | - | - |
| Financial liabilities measured at fair value | | | | |
| Derivative financial instruments | 1,566 | - | 1,566 | - |

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

Financial assets at fair value through profit or loss

The Fund has only invested in listed investments. The value of the investments in the listed market is stated at unit price as quoted on the ASX at each statement of financial position date. As such, listed investments are categorised as Level 1 instruments.

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Note 12: Financial instruments (continued)

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 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.

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 | 2,014 | 14,743 |
| <u>Adjustment for:</u> | | |
| Net changes in fair value of investment properties | 724 | (6,916) |
| Fair value loss on derivative financial instruments | 1,864 | 2,999 |
| Loss on sale of properties | 138 | 133 |
| Net loss on termination of derivative financial instruments | - | 236 |
| Amortisation of borrowing costs | 597 | 495 |
| Net loss on fair value of financial assets | 4,951 | - |
| Business combination transaction costs | 8,145 | - |
| <u>Changes in assets and liabilities:</u> | | |
| Increase in receivables and prepayments | (141) | (1,817) |
| Increase in trade and other payables | 1,134 | 1,606 |
| Net cash inflows from operating activities | 19,426 | 11,479 |

During the period ended 31 December 2015, non-cash transactions regarding the investing and financing activities were entered into by the Fund which have been excluded from the statement of cash flows. The ANI Acquisition was predominantly non-cash and had a direct effect on the capital and asset structure of the Fund. Units valued at \$140.4 million (59.5 million units) were issued during the period as part consideration for the assets and liabilities acquired through the ANI Acquisition. Details of the assets and liabilities acquired through the Acquisition are discussed in more detail in Note 14.

360 Capital Industrial Fund and its controlled entities

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Note 14: Business combinations and acquisition of non-controlling interests

Acquisition of Australian Industrial REIT

Summary of acquisition

On 19 December 2014, a formal, off market, takeover offer ("Offer") for all the units in the Australian Industrial REIT (ASX code: ANI) was made by the Fund, a Bidders Statement was lodged with the ASX on 3 February 2015. On 28 September 2015, the fourth and final Supplementary Bidder's Statement was lodged with the ASX. This updated Offer to ANI unitholders proposed a unit exchange of 0.9 TIX units for every one ANI unit, a 14.5 cents cash payment per ANI unit and an additional 10.0 cents cash payment per ANI unit to be paid by the 360 Capital Group.

By 12 October 2015, the Fund had received a cumulative total of 75.0% of acceptances under the Offer, thus establishing effective control of the entity. On this date alone ("Acquisition date") the Fund received 38.2% of acceptances in the Offer, bringing the total ownership to over 50.0% of units in ANI, thus meaning the Fund had effectively obtained the ability to control ANI through holding greater than 50.0% of units on issue. The acquisition has been accounted for using the acquisition method. The consolidated interim financial statements include the results of ANI for the 2.5 months period from Acquisition date.

The acquisition of ANI has created the largest listed pure rent-collecting industrial REIT in Australia: the combination of TIX and ANI has created the market leading sector specialist with a total investment portfolio of \$867.0 million, providing for increased liquidity, scale and diversification.

Details of the purchase consideration to acquire the controlling interest in ANI on 12 October 2015 is as follows:

| | \$'000 |
|---|----------------|
| Cash paid | 5,336 |
| Units issued at fair value | 77,837 |
| Financial assets at fair value through profit or loss | 79,020 |
| Total purchase consideration | 162,193 |

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

| | \$'000 |
|---|----------------|
| Assets | |
| Cash and cash equivalents | 1,925 |
| Receivables | 863 |
| Investment properties | 331,326 |
| Liabilities | |
| Trade and other payables | (6,335) |
| Borrowings | (120,000) |
| Derivative financial instruments | (1,732) |
| Net identifiable assets acquired including external non-controlling interests | 206,047 |
| Less: External non-controlling interests | (51,467) |
| Net identifiable assets acquired excluding external non-controlling interests | 154,580 |
| Add: Goodwill | 7,613 |
| Total purchase consideration | 162,193 |

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Note 14: Business combinations and acquisition of non-controlling interests (continued)

The fair value of receivables and other financial assets approximates the collectible amount. External non-controlling interests have been calculated at the respective share of net assets.

Goodwill on the purchase of ANI of \$7.6 million has been provisionally recognised as an asset in the consolidated interim statement of financial position as at 31 December 2015. The goodwill represents the difference between total purchase consideration and net identifiable assets acquired. The assessment of net identifiable assets and calculation of goodwill on purchase is provisional as at 31 December 2015.

Revenue and profit contribution

The acquired business contributed revenues of \$7.4 million and a net profit of \$4.3 million to the Fund from 12 October 2015 to 31 December 2015.

If the acquisition had occurred on 1 July 2015, consolidated total revenue from continuing operations and the consolidated net profit of the Fund for the half year ended 31 December 2015 would have been \$42.5 million and \$2.7 million respectively. Net profit for the half year from 1 July 2015 would include transaction costs of \$2.3 million expensed by ANI prior to the Acquisition date. These amounts have been calculated using the Fund's accounting policies.

Contingent consideration

There is no contingent consideration as part of this transaction.

Purchase consideration – cash outflow on acquisition

| | \$'000 |
|---|---------------|
| Cash consideration paid | 5,336 |
| Less: Cash and cash equivalents acquired | (1,925) |
| Outflow of cash to acquire subsidiary - including external non-controlling interest cash | 3,411 |
| Add: Business combination transaction costs expensed through profit or loss | 8,145 |
| Add: Business combination transaction costs recognised in equity | 68 |
| Total cash outflow to acquire subsidiary | 11,624 |

Acquisition related costs

Acquisition related costs of \$8.1 million incurred have been expensed in the consolidated interim statement of profit or loss and have been included as part of net cash flows from investing activities in the consolidated interim statement of cash flows. Transaction costs include stamp duty applicable to the transfer of ownership of the ANI property portfolio, legal and advisory fees. The attributable costs of the issuance of equity of \$0.1 million have been charged directly to equity as a reduction in issued capital and have been included as part of net cash flows from financing activities in the consolidated interim statement of cash flows.

Units issued

Prior to gaining control of ANI on 12 October 2015, the Fund had issued 31,890,005 units (valued at \$78.6 million based on the daily market trading rates of TIX at the date of each issue) to unitholders of ANI as scrip consideration for the Offer. Upon gaining control of ANI on 12 October 2015, the Fund issued a further 33,121,951 units valued at \$77.8 million. The remaining external non-controlling interests were acquired during the period from 13 October 2015 to 1 December 2015 including the part scrip consideration issue of 21,647,562 units valued at \$51.2 million.

360 Capital Industrial Fund and its controlled entities

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Note 14: Business combinations and acquisition of non-controlling interests (continued)

Goodwill

Goodwill of \$7.6 million is attributable to the premium associated with the ANI Acquisition. The ANI investment portfolio comprises industrial properties that are predominately leased to tenants on secure long term leases with structured rental increases. Cost saving synergies through combining ANI with the Fund has resulted in reduced overheads, lower property management fee structures and increased scale enabling the negotiation of reduced future financing costs. Goodwill of \$7.6 million has been provisionally recognised in the consolidated interim statement of financial position as at 31 December 2015.

Loss on fair value of financial assets

Prior to gaining control of ANI on 12 October 2015, the Fund had accumulated an ownership interest of 36.8% and had recognised this investment as a financial asset at fair value through profit or loss. Upon gaining control of ANI, this investment was treated as if it was disposed of at fair value on Acquisition date and the resulting loss recognised in profit or loss.

| | \$'000 |
|---|---------------|
| Opening balance at 1 July 2015: Financial assets at fair value through profit or loss | 68,807 |
| Consideration paid for units | 15,164 |
| Disposal of financial assets (at Acquisition date fair value) | (79,020) |
| Loss on fair value of financial assets | 4,951 |

Acquisition of additional interest in ANI

From 13 October 2015 to 26 October 2015 the Fund acquired an additional 18.3% interest in ANI through further acceptances in the Offer. On 26 October 2015 the Fund lodged a compulsory acquisition notice, thus acquiring the remaining 6.7% of ANI units by 1 December 2015 resulting in the Fund owning 100% of the issued capital of ANI.

| | \$'000 |
|---|---------------|
| Cash consideration paid to non-controlling interests | 3,487 |
| Units issued at fair value to non-controlling interests | 51,177 |
| Carrying value of the additional interest in ANI | (51,860) |
| Difference recognised in retained earnings | 2,804 |

Note 15: Related party transactions

Responsible Entity

The Responsible Entity of 360 Capital Industrial Fund is 360 Capital Investment Management Limited, a wholly owned subsidiary of 360 Capital Group Limited. At a meeting of ANI unitholders on 26 October 2015, 360 Capital ANI Management Limited (a wholly owned subsidiary of 360 Capital Group Limited) was appointed as Responsible Entity of ANI with effect from 28 October 2015. Subsequent to 31 December 2015, ANI was deregistered as a managed investment scheme and 360 Capital ANI Management Limited was replaced by 360 Capital Investment Management Limited as Trustee.

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 and constitution of the Fund.

360 Capital Industrial Fund and its controlled entities

Condensed notes to the interim financial report

For the half year ended 31 December 2015

Note 15: Related party transactions (continued)

Fees for the half year paid/payable by the Fund:

| | 31 December 2015 | 31 December 2014 |
|------------------------|---------------------|---------------------|
| | \$ | \$ |
| Management fees | | |
| Management of the Fund | 2,395,846 | 1,410,569 |
| Custodian fees | 173,970 | 117,550 |
| Fund recoveries | 42,045 | - |
| | 2,611,861 | 1,528,119 |

Aggregate amounts due to the Responsible Entity at balance date:

| | 31 December 2015 | 30 June 2015 |
|------------------------|---------------------|-----------------|
| | \$ | \$ |
| Management of the Fund | 1,295,316 | 879,746 |
| Custodian fees | 5,940 | 676 |
| Fund recoveries | 32,617 | 33,602 |
| | 1,333,873 | 914,024 |

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 0.60% 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

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 | 33,148,945 | 26,504,714 |
| Interest % held | 15.64% | 17.38% |
| Distributions paid/payable by the Fund (\$) | 3,287,294 | 3,807,934 |
| 360 Capital AREIT Fund | | |
| Number of units held | 29,334 | 16,204 |
| Interest % held | 0.01% | 0.01% |
| Distributions paid/payable by the Fund (\$) | 2,582 | 3,403 |

360 Capital Industrial Fund and its controlled entities

Condensed notes to the interim financial report

For the half year ended 31 December 2015

Note 15: Related party transactions (continued)

As outlined in the original Bidder's Statement dated 3 February 2015 and supplementary versions of the Offer for all the units in ANI, 360 Capital Group (in which the Responsible entity of 360 Capital Industrial Fund is included) agreed to pay a conditional cash consideration per ANI unit to all unitholders of ANI that accepted the Offer. The fourth and final Bidders Statement lodged with the ASX on 28 September 2015 declared the Offer unconditional, accordingly 360 Capital Group paid 10.0 cents per ANI unit to all unitholders of ANI that accepted the Offer totalling \$9,628,803.

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 16: Events subsequent to balance date

Subsequent to balance date the ANI debt facility of \$130.0 million was repaid with funds from the renegotiated syndicated debt facility of \$420.0 million (refer to Note 10 for further details).

On 8 February 2016, ANI was deregistered as a managed investment scheme and 360 Capital ANI Management Limited was replaced by 360 Capital Investment Management Limited as Trustee.

Note 17: 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 Industrial Fund and its controlled entities

Directors' declaration

For the half year ended 31 December 2015

The Directors of 360 Capital Investment Management Limited, the Responsible Entity, declare that:

- 1) The consolidated interim financial statements and notes that are set out on pages 8 to 28, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund'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
- 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.

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



Tony Robert Pitt
Director



Graham Ephraim Lenzner
Director

Sydney
24 February 2016

To the unitholders of 360 Capital Industrial Fund

Report on the Interim Financial Report

We have reviewed the accompanying consolidated interim financial report of 360 Capital Industrial 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 Industrial 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.

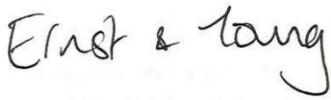
Independence

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 Industrial 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
24 February 2016