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360 Capital REIT (ASX: TOT)

26 February 2021

Appendix 4D

For the half year ended 31 December 2020

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360 Capital REIT comprises the stapling of 360 Capital Passive REIT (ARSN 602 304 432) and 360 Capital Active REIT (ARSN 602 303 613) of which 360 Capital FM Limited (ABN 15 090 664 396 AFSL 221474) as Responsible Entity.

This Preliminary Financial Report is given to the ASX in accordance with Listing Rule 4.2.A. This report should be read in conjunction with the Annual Report for the year ended 30 June 2020. It is also recommended that the Annual Report be considered together with any public announcements made by the Fund. Reference should also be made to the statement of significant accounting policies as outlined in the Financial Report. The Interim Financial Report for the half year ended 31 December 2020 is attached and forms part of this Appendix 4D.

Details of reporting period

Current reporting period: 1 July 2020 – 31 December 2020

Prior corresponding period: 1 July 2019 – 31 December 2019

Results for announcement to the market

				31 Dec 2020 \$'000	31 Dec 2019 \$'000
Revenue and other income from ordinary activities	up	14.6%	to	13,273	11,578
Profit attributable to stapled securityholders for the half year	down	50.8%	to	4,396	8,933
Operating profit ¹	down	59.0%	to	1,450	3,539

¹ 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-operating items. The Responsible Entity considers operating profit to reflect the core earnings of the Fund. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare. A reconciliation of the Fund's statutory profit to operating earnings is provided in Note 1 of the Interim Financial Report.

	31 Dec 2020 Cents per security	31 Dec 2019 Cents per security
Earnings per security – Basic and diluted	3.2	11.5
Operating profit per security	1.1	4.5

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Net tangible asset per security

	31 Dec 2020 \$	31 Dec 2019 \$
NTA per security	1.14	1.16

Control Gained/Lost over Entities during the half year

There were no business combinations during the half year. Business combinations in the previous period are detailed in Note 11 of the Financial Report.

Distributions

	Cents per Security	Record date	Date of payment
September quarter distribution	1.5	30 September 2020	27 October 2020
December quarter distribution	1.5	31 December 2020	27 January 2021
Total distribution for the period ended 31 December 2020	3.0		
September quarter distribution	2.25	30 September 2019	24 October 2019
December quarter distribution	2.25	31 December 2019	27 January 2020
Total distribution for the period ended 31 December 2019	4.5		

Distribution Reinvestment Plans

The Fund's distribution reinvestment plan was not active during the period.

Details of Associates and Joint Venture Entities

Refer to Note 9 Investments Equity Accounted of the Financial Report.

360 Capital



360 CAPITAL REIT

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

Issued by 360 Capital FM Limited

ABN 15 090 664 396, AFS Licence No. 221 474

General information

Reporting entity

The financial report of 360 Capital REIT (Consolidated Entity or Fund) comprises the consolidated financial statements of 360 Capital Passive REIT (Passive REIT) (ARSN 602 304 432) and its controlled entities and 360 Capital Active REIT (Active REIT) (ARSN 602 303 613) and its controlled entities. A 360 Capital REIT stapled security comprises one 360 Capital Passive REIT unit stapled to one 360 Capital Active REIT unit to create a single listed entity traded on the ASX. The stapled security cannot be traded or dealt with separately.

The Responsible Entity of the Fund is 360 Capital FM 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 Director's report.

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 360 Capital REIT for the year ended 30 June 2020 and any public announcements made by 360 Capital REIT during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The interim financial report is presented in Australian dollars.

The Fund is an entity of the kind referred to in Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC). In accordance with that Instrument, amounts in the interim financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 February 2021.

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360 Capital REIT
Responsible Entity report
For the half year ended 31 December 2020

The Directors of 360 Capital FM Limited (CFML) (ABN 15 090 664 396) (AFSL No 221474), the Responsible Entity, present their report together with the interim financial report of 360 Capital REIT (Fund or consolidated entity) (ASX:TOT) for the half year ended 31 December 2020. 360 Capital REIT comprises 360 Capital Passive REIT (Parent Entity or Passive REIT) and its controlled entities and 360 Capital Active REIT (Active REIT) and its controlled entities.

Directors

The following persons were directors of 360 Capital FM Limited during the whole of 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

On 15 February 2021, Graham Lenzner announced his retirement from his role as independent non-executive director of 360 Capital FM Limited and its related entities, effective from 31 March 2021.

Principal activities

The Fund listed on the Australian Stock Exchange (ASX) in April 2015 as a unique fund investing in various forms of real estate assets.

The Fund may invest across a wide range of assets within both Australia and New Zealand real estate markets, including:

- repositioning assets
- investing in investment properties
- investing in development projects
- investing in real estate based operating businesses
- underwriting potential capital raisings including syndicates and both unlisted and listed funds
- strategic positions in unlisted funds
- capitalising on mispriced trading opportunities in listed REIT sector
- participating in mergers and acquisition activities
- participating in special situations within markets including distressed sales, investments with restructuring potential, and providing loans

Key financial highlights for the half year ended 31 December 2020

Statutory net profit

\$4.4m

(Dec 2019: \$8.9 million)

Statutory net profit attributable to securityholders lower than prior year as a result from the prior period including a gain on URB Investments Limited (URB) acquisition of \$5.6 million

Operating profit

\$1.5m

(Dec 2019: \$3.5 million)

Operating profit¹ of \$1.5 million (equating to 1.1cps) delivered through revenue from remaining real estate loan investments and sale of residential properties

Distributions per security

3.0cps

(Dec 2019: 4.5 cps)

Distributions of 3.0 cps for the period in-line with full year forecast distributions of 6.0cps

ASX closing price

\$0.88

per security

(Jun 2020: \$0.865)

The Fund's closing price reflects a 22.8% discount to NTA as at 31 December 2020

¹Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (AAS) and represents the profit under AAS adjusted for non-operating items. The Responsible Entity considers 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 securityholders. The operating profit information in the table has not been subject to any specific audit procedures by the Fund's auditor but has been extracted from Note 1: Segment reporting.

Key operational achievements for the half year ended 31 December 2020

Investment

PEET

ASX: PPC

At 31 December 2020 the Fund held a 5.0% strategic stake in Peet Limited (ASX: PPC) an ASX listed leading Australian residential developer

Acquisition

IRONGATE

ASX: IAP

Post period acquired a 9.2% stake in Irongate Group (ASX: IAP) for \$78.6 million, an ASX listed diversified REIT with approximately \$1.1 billion of assets and a funds management platform.

Acquisition

 **pmg**
We're Invested

Funds Management Limited

Post period acquired a 50% in PMG Funds for NZ\$17.5 million, a leading NZ based real estate fund manager with over NZ\$665.7 million in FUM

Financial overview

The Fund's profit attributable to securityholders for the half year was \$4.4 million (31 December 2019: \$8.9 million). The profit for the half year included \$1.5 million (31 December 2019: \$3.3 million) of finance revenue generated by interest on cash held and loans receivable deployed. The Fund's balance sheet as at 31 December 2020 had gross assets of \$159.9 million (30 June 2020: \$161.7 million).

As at 31 December 2020 the Fund has provided for a \$0.1 million (30 June 2020: \$0.2 million) loss allowance on loans receivable in accordance with AASB 9 'Financial Instruments'. The accounting standard requires a provision to be recognised based on the probability of future expected credit loss. Whilst the Fund has recognised a loss allowance on the loans receivable, there is currently no evidence that any actual loss will eventuate.

Significant transactions

Unlisted Investments

In July 2020, the Fund exchanged contracts for the sale of the Penrith shopping centre asset. On 29 January 2021, settlement occurred and the Fund received net settlement proceeds of \$6.6 million.

The only remaining investment from the URB acquisition in the previous period is the interest in Home HQ Artarmon which is deemed non-core.

Investment in residential apartments

During the period, the Fund continued its sales campaign for the apartments held in Gladesville, NSW. During the half year to 31 December 2020, the sale of 9 apartments had settled with a further 3 exchanged.

TOT has now settled or exchanged contracts for the sale of 19 apartments from 23 originally purchased, at an average premium of 21.3% to the November 2019 purchase price. Whilst transaction volumes have slowed, TOT is confident of selling the remaining apartments over FY21.

Investment in Velocity Property Group

Velocity Property Group (ASX:VP7) (Velocity) is an ASX listed boutique property development company that develops multi-unit apartment and mixed commercial developments in Queensland. TOT holds a 50% stake in a joint Venture company, TGP TOT JV Pty Limited which holds a 19.99% strategic stake in Velocity.

On 23 December 2020, Velocity announced that it will hold an Extraordinary General Meeting on 17 February 2021 to allow shareholders to vote on 360 Capital's (ASX:TGP) proposal to restructure Velocity into a real estate debt business focused on investing, broking and managing real estate debt investments in Australia and New Zealand. The proposal includes the sale of AMF Finance Pty Limited to Velocity (including the 50% owned by TOT) and is conditional on a capital raise, amongst other things. On 17

February 2021, unitholders approved all resolutions to effect the 360 Capital Proposal (subject to completing a recapitalisation).

Debt origination and management joint venture

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT. This revenue stream adds to the Fund's active earnings.

The Fund, together with 360 Capital Group has issued a proposal to sell AMF to Velocity for the equivalent of \$3.0 million, subject to certain conditions.

Capital management

The Fund did not issue any additional units in the half year (30 June 2020: 73,390,235).

Strategy and operating environment

Impact of COVID-19 on the consolidated entity

The World Health Organization declared a global pandemic in March 2020 as a result of the novel coronavirus (COVID-19). The consolidated entity has considered the impact of COVID-19 in preparing its financial report for the half year. The effects of the pandemic are continuing to unfold, and the extent of the social, medical and economic impacts worldwide are unknown.

As a result of COVID-19, TOT ceased its lending activities and shifted management's focus to converting outstanding loan positions and assets to cash. During the half year, all outstanding development loans were repaid with only a \$10.0 million note receivable outstanding, due to be repaid in March 2021.

During the period, the responsible entity took a conservative approach with a focus on capital preservation given the market volatility and economic uncertainty.

Refined Investment strategy

TOT has refined its focus to investing in real estate equity, across both corporate and direct asset opportunities. The rationale for refining TOT's strategy is:

- COVID-19 will likely lead to volatility in commercial real estate values over the near-term creating greater opportunity for investment and potential capital growth;
- Potential deterioration of economic and real estate fundamentals provides opportunistic investors like TOT with an attractive entry point for long-term capital growth; and
- TOT leverages 360 Capital Group's 15-year real estate track record and experience, allowing TOT to partner with third party capital to access larger, higher quality transactions.

TOT's objective of providing regular quarterly distributions in line with passive earnings and reinvestment of active earnings remains unchanged, with a five-year track record of consistent quarterly distributions, averaging over 9.0cps per annum.

Outlook

TOT's strategy has evolved from a pure total return focus to that of providing regular quarterly distributions in line with the Fund's passive earnings and reinvestment of the TOT's active earnings.

The responsible entity remains focused on continuing to increase liquidity and awareness of the Fund and greater focus on acquisitions / investments that provide recurring income.

Distributions

Distributions paid during the half year were as follows:

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
September 2019 quarterly distribution 2.25 cps paid on 24 October 2019	-	1,580
December 2019 quarterly distribution 2.25 cps paid on 23 January 2020	-	3,231
September 2020 quarterly distribution 1.50 cps paid on 27 October 2020	2,080	-
December 2020 quarterly distribution 1.50 cps paid on 27 January 2021	2,066	-
	4,146	4,811

Events subsequent to balance date

On 29 January 2021 the settlement of the Penrith Shopping Centre occurred and the Fund received net settlement proceeds of \$6.6 million. Also on 29 January 2021, the Fund acquired a 9.2% holding in Inrgate Limited (ASX:IAP) for \$78.6 million.

On 12 February 2021, the Fund received a repayment of \$800,000 on the \$10 million note from Velocity, leaving a balance of \$9.2 million at the date of this report. On 17 February 2021, Velocity unitholders approved all resolutions to effect the 360 Capital Proposal to restructure Velocity into a real estate debt business focused on investing, broking and managing real estate debt investments in Australia and New Zealand (subject to completing a recapitalisation).

On 19 February 2021, the Fund announced it had acquired a 50% stake in PMG Management, a New Zealand based funds management company.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the half year.

Likely developments and expected results of operations

The Fund will continue to invest in real estate based activities and actively manage a diversified portfolio of investments as in line with the Funds stated strategy.

Number of interests on issue

As at 31 December 2020 the number of securities on issue in the Fund was 137,739,757 (2020: 138,800,281).

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 stapled securityholders. During the half year ended 31 December 2020 there were 1,060,524 units bought back and cancelled (2020: nil) at an average price of \$0.874.

Rounding of amounts

360 Capital REIT is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



David van Aanholt
Chairman



Tony Robert Pitt
Managing Director

26 February 2021



**Building a better
working world**

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Auditor's Independence Declaration to the Directors of 360 Capital FM Limited as Responsible Entity for 360 Capital REIT and 360 Capital Active REIT

As lead auditor for the review of the half-year financial report of 360 Capital REIT and 360 Capital Active REIT for the half-year ended 31 December 2020, 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 REIT and the entities it controlled during the financial period and 360 Capital Active REIT and the entities it controlled during the financial period.

Ernst & Young

Douglas Bain
Partner
26 February 2021

360 Capital REIT
Consolidated statements of profit or loss and other comprehensive income
For the half year ended 31 December 2020

	Note	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000	Active REIT 31 Dec 2020 \$'000	31 Dec 2019 \$'000
Revenue					
Finance revenue		1,478	3,300	365	73
Distributions		353	756	353	756
Sale of inventory		6,710	-	6,710	-
Total revenue from continuing operations		8,541	4,056	7,428	829
Share of profits of associates accounted for using the equity method		-	1,387	-	1,387
Net fair value gain on financial assets		4,659	523	4,408	429
Gain on business combination		-	5,607	-	5,607
Other income		73	5	23	5
Total revenue from continuing operations and other income		13,273	11,578	11,859	8,257
Expenses					
Cost of sales		(5,933)	-	(5,933)	-
Inventory holding costs		(266)	-	(266)	-
Transaction costs		(130)	(403)	(130)	(403)
Administration expenses		(285)	(170)	(180)	(92)
Loss allowance on financial assets		-	(133)	-	-
Loss on disposal of assets		(132)	(417)	(132)	(418)
Management fees		(530)	(382)	(197)	(100)
Share of losses of associates accounted for using the equity method		(370)	-	(370)	-
Finance costs		-	(33)	-	(33)
Total expenses		(7,646)	(1,538)	(7,208)	(1,046)
Profit before income tax expense		5,627	10,040	4,651	7,211
Income tax expense	3	(1,231)	(1,107)	(1,231)	(1,107)
Profit after income tax expense for the half year		4,396	8,933	3,420	6,104
Other comprehensive income for the half year, net of tax		-	-	-	-
Total comprehensive income for the half year		4,396	8,933	3,420	6,104
Total comprehensive income attributable to:					
Unitholders of 360 Capital Passive REIT		976	2,829	-	-
Unitholders of 360 Capital Active REIT		3,420	6,104	3,420	6,104
		4,396	8,933	3,420	6,104
		Cents	Cents	Cents	Cents
Basic earnings per security		3.2	11.5	2.5	7.8
Diluted earnings per security		3.2	11.5	2.5	7.8

The above consolidated statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

360 Capital REIT
Consolidated statements of financial position
As at 31 December 2020

		Consolidated		Active REIT	
	Note	31 Dec 2020	30 Jun 2020	31 Dec 2020	30 Jun 2020
		\$'000	\$'000	\$'000	\$'000
Assets					
Current assets					
Cash and cash equivalents		103,928	78,484	7,088	2,114
Trade and other receivables		187	612	158	474
Inventories	5	5,904	11,838	5,904	11,838
Financial assets at fair value through profit or loss - current	7	10,315	11,021	10,315	11,021
Financial assets at amortised cost	4	9,876	42,445	9,876	-
Total current assets		130,210	144,400	33,341	25,447
Non-current assets					
Investments accounted for using the equity method	9	772	1,142	772	1,142
Financial assets at fair value through profit or loss - non current	8	28,956	6,305	28,956	3,260
Financial assets at amortised cost	4	-	9,876	-	9,876
Total non-current assets		29,728	17,323	29,728	14,278
Total assets		159,938	161,723	63,069	39,725
Liabilities					
Current liabilities					
Trade and other payables		227	215	111	77
Borrowings		-	-	29,151	9,027
Provision for income tax		265	1,292	265	1,292
Distribution payable		2,066	3,123	-	-
Total current liabilities		2,558	4,630	29,527	10,396
Non-current liabilities					
Deferred tax liabilities		1,008	42	1,008	42
Total non-current liabilities		1,008	42	1,008	42
Total liabilities		3,566	4,672	30,535	10,438
Net assets		156,372	157,051	32,534	29,287
Equity					
Issued capital	10	179,589	180,518	24,540	24,713
Retained profits/(accumulated losses)		(23,217)	(23,467)	7,994	4,574
Total equity		156,372	157,051	32,534	29,287

The above consolidated statements of financial position should be read in conjunction with the accompanying notes

360 Capital REIT
Consolidated statements of changes in equity
For the half year ended 31 December 2020

Consolidated	Issued capital \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	105,215	(22,839)	82,376
Profit after income tax expense for the half year	-	8,933	8,933
Other comprehensive income for the half year, net of tax	-	-	-
Total comprehensive income for the half year	-	8,933	8,933
<i>Transactions with securityholders in their capacity as securityholders:</i>			
Issued securities	80,818	-	80,818
Equity raising transaction costs	(377)	-	(377)
Distributions paid (Note 2)	-	(4,811)	(4,811)
Balance at 31 December 2019	185,656	(18,717)	166,939

Consolidated	Issued capital \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	180,518	(23,467)	157,051
Profit after income tax expense for the half year	-	4,396	4,396
Other comprehensive income for the half year, net of tax	-	-	-
Total comprehensive income for the half year	-	4,396	4,396
<i>Transactions with securityholders in their capacity as securityholders:</i>			
Securities bought back and cancelled	(927)	-	(927)
Equity raising transaction costs	(2)	-	(2)
Distributions paid (Note 2)	-	(4,146)	(4,146)
Balance at 31 December 2020	179,589	(23,217)	156,372

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes

360 Capital REIT
Consolidated statements of changes in equity
For the half year ended 31 December 2020

Active REIT	Issued capital \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	12,755	336	13,091
Profit after income tax expense for the half year	-	6,104	6,104
Other comprehensive income for the half year, net of tax	-	-	-
Total comprehensive income for the half year	-	6,104	6,104
<i>Transactions with securityholders in their capacity as securityholders:</i>			
Issued securities	13,059	-	13,059
Equity raising transaction costs	(112)	-	(112)
Balance at 31 December 2019	25,702	6,440	32,142

Active REIT	Issued capital \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2020	24,713	4,574	29,287
Profit after income tax expense for the half year	-	3,420	3,420
Other comprehensive income for the half year, net of tax	-	-	-
Total comprehensive income for the half year	-	3,420	3,420
<i>Transactions with securityholders in their capacity as securityholders:</i>			
Securities bought back and cancelled	(172)	-	(172)
Equity raising transaction costs	(1)	-	(1)
Balance at 31 December 2020	24,540	7,994	32,534

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes

360 Capital REIT
Consolidated statements of cash flows
For the half year ended 31 December 2020

	Note	Consolidated		Active REIT	
		31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		167	5	153	5
Payments to suppliers and employees (inclusive of GST)		(1,281)	(504)	(871)	(190)
Dividends and distributions received		324	359	324	358
Finance revenue		3,327	4,015	365	72
Proceeds from sale of inventory		6,710	-	6,710	-
Payments for inventory		-	(17,444)	-	(17,444)
Interest and other finance costs paid		-	(33)	-	(33)
Income taxes paid		(1,292)	-	(1,292)	-
Net cash from/(used in) operating activities		7,955	(13,602)	5,389	(17,232)
Cash flows from investing activities					
Payments for financial assets		(19,270)	(11,668)	(22,565)	(8,467)
Payment for equity accounted investments		-	(797)	-	(797)
Notes receivable provided		-	(10,000)	-	(10,000)
Loans receivable provided		-	(57,494)	-	-
Loans receivable repaid		40,741	15,949	-	-
Proceeds from disposal of investments		2,150	54	2,199	547
Net proceeds from acquisition of controlled entity, net cash received		-	53,438	-	53,438
Payment of transaction costs		-	(16)	-	(76)
Net cash from/(used in) investing activities		23,621	(10,534)	(20,366)	34,645
Cash flows from financing activities					
Proceeds from issue of securities	10	-	10,789	-	1,715
Proceeds from borrowings		-	8,227	-	8,227
Payments for security buy-backs		(927)	-	(173)	-
Security issue transaction costs		(2)	(403)	-	(116)
Distributions paid	2	(5,203)	(3,687)	-	-
Proceeds from related party loan		-	-	20,124	-
Repayment of related party loan		-	-	-	(14,480)
Net cash from/(used in) financing activities		(6,132)	14,926	19,951	(4,654)
Net increase/(decrease) in cash and cash equivalents		25,444	(9,210)	4,974	12,759
Cash and cash equivalents at the beginning of the financial half year		78,484	42,333	2,114	9,530
Cash and cash equivalents at the end of the financial half year		103,928	33,123	7,088	22,289

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes

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360 Capital REIT
Notes to the consolidated financial statements
For the half year ended 31 December 2020

Note 1. Operating segments

The Fund invests solely in the real estate sector 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 consolidated Fund level, as a result the Fund has only one segment and no segment information is reported for the Active REIT.

Operating profit is a financial measure which is not prescribed by AAS and represents the profit under AAS adjusted for specific non-operating 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 stapled securityholders. The information provided is net of non-operating items comprising transaction costs, unrealised fair value adjustments of financial assets and other assets, unrealized foreign exchange gains and losses, impairment adjustments, share of equity accounted profits in excess of distributions received and all other non-operating activities.

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

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Profit attributable to stapled securityholders of the Fund	4,396	8,933
Non-operating items		
Net loss on disposal of financial assets	132	417
Net gain on fair value of financial assets	(4,659)	(523)
Share of profit relating to non-operating items	336	-
Loss allowance on loans receivable	(50)	133
Gain on business acquisition ¹	-	(5,607)
Revaluation on acquisition of equity accounted investment ²	-	(1,145)
Acquisition and transaction costs	305	403
Tax expense on non-operating items	990	928
	(2,946)	(5,394)
Operating profit (profit before specific non-cash and significant items)³	1,450	3,539
Weighted average number of securities ('000)	138,503	77,993
Operating profit per stapled security (profit before specific non-cash and significant items) (EPS) – cents	1.1	4.5

1. Gain on bargain purchase from the acquisition of URB Investments Limited

2. Revaluation on acquisition of interest in TGP TOT Pty Ltd joint venture, included in share of profit

3. Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (AAS) and represents the profit under AAS adjusted for non-operating items. The Responsible Entity considers 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 securityholders. The operating profit information in the table has not been subject to any specific audit or review procedures by the Fund's auditor.

Note 2. Distributions

The Active REIT did not declare any distributions during the half year or up to the date of this report (December 2019: Nil). Distributions declared by the Passive REIT to securityholders during the half year were as follows:

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
September 2019 quarterly distribution 2.25 cps paid on 24 October 2019	-	1,580
December 2019 quarterly distribution 2.25 cps paid on 23 January 2020	-	3,231
September 2020 quarterly distribution 1.50 cps paid on 27 October 2020	2,080	-
December 2020 quarterly distribution 1.50 cps paid on 27 January 2021	2,066	-
	4,146	4,811

Note 3. Income tax expense

The Fund calculates income tax expense using the tax rate applicable to the expected total annual earnings. The major components of income tax expense during the year are:

	Consolidated 31 Dec 2020 \$'000	31 Dec 2019 \$'000	Active REIT 31 Dec 2020 \$'000	31 Dec 2019 \$'000
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>				
Profit before income tax expense	5,627	10,040	4,651	7,211
Tax at the statutory tax rate of 26% (2019: 27.5%)	1,463	2,761	1,209	1,983
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Tax-deferred distributions	(12)	-	(12)	-
Trust income exempt from income tax	(254)	(778)	-	-
Net fair value gain on investment	-	(118)	-	(118)
Net gain on sale of listed securities	-	1,110	-	1,110
Gain on business acquisition	-	(1,542)	-	(1,542)
Net business acquisition costs and equity raising costs	-	111	-	111
Equity accounted profits	96	(381)	96	(381)
Franked dividend gross up	27	-	27	-
Other tax adjustments	16	(56)	16	(56)
	1,336	1,107	1,336	1,107
Adjustment to deferred tax balances as a result of change in statutory tax rate	(2)	-	(2)	-
Tax offset for franked dividends	(103)	-	(103)	-
Income tax expense	1,231	1,107	1,231	1,107

Note 4. Financial assets at amortised cost

	Consolidated		Active REIT	
	31 Dec 2020	30 Jun 2020	31 Dec 2020	30 Jun 2020
	\$'000	\$'000	\$'000	\$'000
<i>Current assets</i>				
Secured loans	10,000	42,495	10,000	-
Provision for expected credit losses	(124)	(50)	(124)	-
Total current	9,876	42,445	9,876	-
<i>Non-current assets</i>				
Secured loans	-	10,000	-	10,000
Provision for expected credit losses	-	(124)	-	(124)
Total non-current	-	9,876	-	9,876
Total	9,876	52,321	9,876	9,876

Note 5. Inventories

	Consolidated		Active REIT	
	31 Dec 2020	30 Jun 2020	31 Dec 2020	30 Jun 2020
	\$'000	\$'000	\$'000	\$'000
<i>Current assets</i>				
Gladesville apartments	5,904	11,838	5,904	11,838

In the prior period, the Fund acquired 23 brand new strata titled apartments in Gladesville, NSW for a total purchase price of \$16.5 million. The apartments comprise a combination of one, two and three- bedroom apartments. During the half year, a further 9 apartments were settled. In total 16 of 23 apartments have been settled as at 31 December 2020.

The carrying value of inventory includes associated acquisition costs including stamp duty.

Movements in the carrying value during the year are as follows:

	Consolidated		Active REIT	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July	11,838	-	11,838	-
Inventory purchased during the period	-	16,500	-	16,500
Purchase costs capitalised	-	982	-	982
Cost of goods sold during the period	(5,934)	(5,644)	(5,934)	(5,644)
Closing balance	5,904	11,838	5,904	11,838

Note 6. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's and Active REIT's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 31 Dec 2020				
<i>Assets</i>				
Financial assets at fair value through profit or loss	28,956	-	10,315	39,271
Total assets	28,956	-	10,315	39,271

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 30 Jun 2020				
<i>Assets</i>				
Financial assets at fair value through profit or loss	6,305	-	11,021	17,326
Total assets	6,305	-	11,021	17,326

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Active REIT - 31 Dec 2020				
<i>Assets</i>				
Financial assets at fair value through profit or loss	28,956	-	10,315	39,271
Total assets	28,956	-	10,315	39,271

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Active REIT - 30 Jun 2020				
<i>Assets</i>				
Financial assets at fair value through profit or loss	14,281	-	-	14,281
Total assets	14,281	-	-	14,281

There were no transfers between levels during the half year.

Note 7. Financial assets at fair value through profit or loss - current

	Consolidated		Active REIT	
	31 Dec 2020 \$'000	30 Jun 2020 \$'000	31 Dec 2020 \$'000	30 Jun 2020 \$'000
<i>Current assets</i>				
Investments in unlisted securities	10,315	11,021	10,315	11,021

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous period are set out below:

Balance at 1 July	11,021	-	11,021	-
Additions through business combinations (note 11)	-	10,957	-	10,957
Disposals through market	-	(233)	-	(233)
Fair value adjustment of financial assets	(706)	297	(706)	297
Closing fair value	10,315	11,021	10,315	11,021

360 Capital REIT
Notes to the consolidated financial statements
For the half year ended 31 December 2020

Note 7. Financial assets at fair value through profit or loss - current (continued)

Refer to note 6 for further information on fair value measurement.

Note 8. Financial assets at fair value through profit or loss - non current

	Consolidated		Active REIT	
	31 Dec 2020	30 Jun 2020	31 Dec 2020	30 Jun 2020
	\$'000	\$'000	\$'000	\$'000
<i>Non-current assets</i>				
Investments in listed securities - non current	28,956	6,305	28,956	3,260
<i>Reconciliation</i>				
Reconciliation of the fair values at the beginning and end of the current and previous period are set out below:				
Balance at 1 July	6,305	-	3,260	-
Additions through market	19,270	7,998	22,565	4,122
Disposals through market	(1,852)	-	(1,852)	-
Fair value adjustment of financial assets	5,365	(1,693)	5,115	(862)
Realised loss on disposal of financial assets	(132)	-	(132)	-
Closing fair value	28,956	6,305	28,956	3,260

Refer to note 6 for further information on fair value measurement.

Note 9. Investments accounted for using the equity method

	Consolidated		Active REIT	
	31 Dec 2020	30 Jun 2020	31 Dec 2020	30 Jun 2020
	\$'000	\$'000	\$'000	\$'000
<i>Non-current assets</i>				
Investment in Assoc/JV - AMF Finance Pty Limited	147	181	147	181
Investment in Assoc/JV - TGP TOT JV Pty Limited	625	961	625	961
	772	1,142	772	1,142

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF or AMF Finance). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT. The other 50% stake is held by 360 Capital Group (ASX: TGP).

The Fund, together with 360 Capital Group has issued a proposal to sell AMF to Velocity for the equivalent of \$3.0 million, subject to certain conditions.

TOT holds a 50% investment in TGP TOT JV Pty Limited, which holds a 19.99% strategic stake in Velocity Property Group (ASX: VP7). The other 50% interest in the joint venture is held by 360 Capital Group.

Reconciliation of movements in equity accounted investments for the year are as follows:

Note 9. Investments accounted for using the equity method (continued)

	Consolidated		Active REIT	
	31 Dec 2020	30 Jun 2020	31 Dec 2020	30 Jun 2020
	\$'000	\$'000	\$'000	\$'000
AMF Finance Pty Limited				
Opening balance - 1 July	181	397	181	397
Share of equity accounted profit/(loss)	(34)	134	(34)	134
Dividends received during the year	-	(350)	-	(350)
	147	181	147	181
TGP TOT JV Pty Limited				
Opening balance - 1 July	961	-	961	-
Acquisition of equity interest	-	796	-	796
Share of equity accounted profit/(loss)	(336)	165	(336)	165
	625	961	625	961
	772	1,142	772	1,142

Note 10. Issued capital

(a) Movements in issued capital

Movements in issued capital - 360 Capital REIT

Details	Date	Securities '000	Average price	\$'000
Balance	1 July 2020	138,800		180,518
Securities bought back and cancelled		(1,060)	\$0.87	(927)
Transaction costs incurred in security buyback		-		(2)
Balance	31 December 2020	137,740		179,589

Movements in issued capital - 360 Capital Active REIT

Details	Date	Securities '000	Average price	\$'000
Balance	1 July 2020	138,800		24,713
Securities bought back and cancelled		(1,060)	\$0.16	(172)
Transaction costs incurred in security buyback		-		(1)
Balance	31 December 2020	137,740		24,540

During the half year the Fund bought back and cancelled 1,060,524 units at an average price of \$0.874.

Note 11. Business combinations

There were no business combinations during the half year. Business combinations in the previous period are detailed below.

URB Investments Limited

URB Investments Limited (URB) was an ASX listed investment company specialising in investing in small and medium sized companies located within Australia and New Zealand.

The acquisition was implemented through a scheme of arrangement under which each scheme share was transferred to TOT in exchange for 0.9833 TOT securities for every fully paid scheme share transferred (Scrip consideration).

360 Capital REIT
Notes to the consolidated financial statements
For the half year ended 31 December 2020

Note 11. Business combinations (continued)

On 6 November 2019, the resolution to approve the scheme was passed by the requisite majorities of URB shareholders. The TOT securities under scrip consideration were issued on 20 December 2019.

Details of the acquisition are as follows:

	Fair value \$'000
Units issued (64,246,737 at \$1.09)	70,029
Financial assets at fair value through profit or loss	9,240
Net assets acquired	79,269
Acquisition-date fair value of the total consideration transferred	79,269

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

	Fair value \$'000
Cash and cash equivalents	53,438
Receivables	30
Financial assets at fair value through profit or loss	32,317
Other current assets	608
Trade and other payables	(42)
Deferred tax liability	(890)
Other current liabilities	(585)
Net assets acquired	84,876
Gain on bargain purchase	(5,607)
Acquisition-date fair value of the total consideration transferred	79,269

The fair value of receivables and other current assets approximates the collectible amount. Financial assets which consist of listed securities and unlisted property trusts have been adjusted to their fair value at the date of acquisition.

A bargain on purchase of URB of \$5.6 million was recognised as income in the consolidated statement of profit or loss for the prior period. The bargain represents the different between total purchase consideration and net identifiable assets acquired. The gain on the acquisition of URB was attributed to the lower scrip consideration paid. TOT security price was trading at a discount of circa 8% from its NAV on the implementation date.

Note 12. Related party transactions

Responsible entity

The Responsible Entity of the Fund is 360 Capital FM Limited (ABN 15 090 664 396) (AFSL No 221474). The immediate parent entity of the Responsible Entity is 360 Capital Property Limited (ABN 46 146 484 433), and its ultimate parent entity is 360 Capital Group Limited (ABN 18 113 569 136).

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

Level 8, 56 Pitt Street, Sydney NSW 2000 Australia

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.

Note 12. Related party transactions (continued)

	Consolidated		Active REIT	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	\$'000	\$'000	\$'000	\$'000
<u>Management of the fund</u>				
Management fees	526,064	347,891	194,945	77,372
Disposal fees	67,100	-	67,100	-
Fund recoveries charged through administration expenses	4,313	35,467	2,156	22,753
	597,477	382,358	264,201	100,125

Management Fee: The Responsible Entity is entitled to a Management Fee of 0.65% p.a. of the gross value of the assets of the Fund during the relevant year for its role in managing and administering the Fund.

Disposal Fee: The Responsible Entity is entitled to a Disposal Fee of up to 1.0% of the total sale price of investments sold by the Fund. The disposal fee is payable upon the completion of the relevant sale.

Indirect costs: The Responsible Entity is entitled to recover indirect costs, being any amounts that directly or indirectly reduce the returns on the units of the Fund, or the amount of income or assets of the Fund.

Securityholdings

Securities held by the Responsible Entity and other Funds managed by and related to the Responsible Entity held stapled securities in the Fund and Active REIT are as follows:

	31 Dec 2020	31 Dec 2020	30 Jun 2020	30 Jun 2020
	%	units	%	units
360 Capital Property Limited				
Stapled securities held	20.2%	27,785,491	20.0%	27,785,491

Distributions

Distributions paid by the Fund to the Responsible Entity and other Funds managed by and related to the Responsible Entity are as follows. No distributions were paid by the Active REIT.

	Consolidated		Active REIT	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
	\$	\$	\$'000	\$'000
Distributions paid/payable by the Fund	833,565	1,040,640	-	-

Related party loan

The Active REIT has a loan with the Passive REIT which relates to the working capital requirements between the two stapled entities. The balance of the loan payable at 31 December 2020 is \$29,151,425 (30 June 2020: \$9,027,369). This loan is non-interest bearing and at call.

AMF Finance

In December 2020, contracts were signed for the sale of AMF Finance Pty Limited, a joint venture vehicle owned by TOT and 360 Capital Group for the equivalent of \$3.0 million to Velocity Property Group (to be paid in scrip), subject to certain conditions.

Note 13. Events after the reporting period

On 29 January 2021 the settlement of the Penrith Shopping Centre occurred and the Fund received net settlement proceeds of \$6.6 million. Also on 29 January 2021, the Fund acquired a 9.2% holding in Irongate Limited (ASX:IAP) for \$78.6 million.

On 12 February 2021, the Fund received a repayment of \$800,000 on the \$10 million note from Velocity, leaving a balance of 9.2 million at the date of this report. On 17 February 2021, Velocity unitholders approved all resolutions to effect the 360 Capital Proposal to restructure Velocity into a real estate debt business focused on investing, broking and managing real estate debt investments in Australia and New Zealand (subject to completing a recapitalisation).

On 19 February 2021, the Fund announced it had acquired a 50% stake in PMG Management, a New Zealand based funds management company.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 14. Significant accounting policies

These general purpose financial statements for the interim half year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by 360 Capital REIT during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The following amendments to the Australian Accounting Standards (AAS) are applicable to this Financial Report.

- AASB 2018-6 Amendments to AASs - *Definition of a Business*
- AASB 2018-7 Amendments to AASs - *Definition of Material*
- AASB 2019-1 Amendments to AASs - *References to the Conceptual Framework*

These amendments have been deemed not to have a material impact to the Fund.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

In the opinion of the Directors of 360 Capital FM Limited, the Responsible Entity:

- 1) The consolidated financial statements and notes that are set out on pages 12 to 26 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 2020 and of its performance for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standard 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.



David van Aanholt
Chairman



Tony Robert Pitt
Managing Director

26 February 2021



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working world**

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Independent Auditor's Review Report to the unitholders of 360 Capital REIT

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of 360 Capital REIT (collectively the Group), which comprises 360 Capital Passive REIT and its controlled entities, and 360 Capital Active REIT (TOTA) and its controlled entities, which comprises of the Group and TOTA consolidated statements of financial position as at 31 December 2020, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group and TOTA is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's and TOTA's consolidated financial position as at 31 December 2020 and of their consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year 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 half-year 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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's and TOTA's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



Building a better working world

A review of a half-year 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*.

Ernst & Young

Douglas Bain
Partner
Sydney
26 February 2021

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