

# 360 Capital Office Fund



## For the year ended 30 June 2016

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

This Preliminary Financial Report is given to the ASX in accordance with Listing Rule 4.3A. This report should be read in conjunction with the Annual Report for the year ended 30 June 2016. 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 Annual Report for the year ended 30 June 2016 is attached and forms part of this Appendix 4E.

### Details of reporting period:

Current reporting period: 1 July 2015 – 30 June 2016

Prior corresponding period: 1 July 2014 – 30 June 2015

### Results announcement to the market:

	30 Jun 2016 \$'000	30 Jun 2015 \$'000	Movement \$'000	Movement %
Revenue and other income from ordinary activities	31,563	26,312	5,251	20.0
Profit attributable to members for the year	20,438	12,402	8,036	64.8
Operating profit <sup>1</sup>	13,189	13,965	(776)	(5.6)

<sup>1</sup> 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 and significant items. The Directors consider 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 3 of the Financial Report.

	30 Jun 2016 Cents per unit	30 Jun 2015 Cents per unit	Movement Cents per unit	Movement %
Earnings per unit – Basic and Diluted	27.9	16.4	11.5	70.1
Operating profit per unit	18.0	18.5	(0.5)	(2.7)

# 360 Capital Office Fund



**For the year ended 30 June 2016**

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

## Distributions:

	Cents per unit	Total amount paid \$'000	Date of payment
September quarter distribution	4.25	3,115	23 October 2015
December quarter distribution	4.25	3,114	27 January 2016
March quarter distribution	4.25	3,115	28 April 2016
June quarter distribution	4.25	3,114	26 July 2016
<b>Total distribution for the year ended 30 June 2016</b>	<b>17.00</b>	<b>12,458</b>	
September quarter distribution	4.25	3,302	24 October 2014
December quarter distribution	4.25	3,285	23 January 2015
March quarter distribution	4.25	3,115	24 April 2015
June quarter distribution	4.25	3,114	24 July 2015
<b>Total distribution for the year ended 30 June 2015</b>	<b>17.00</b>	<b>12,816</b>	

## Net tangible asset per security:

	30 Jun 2016	30 Jun 2015
	\$	\$
NTA per unit	2.25	2.14



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360 Capital  
Group

# 360 CAPITAL OFFICE FUND

Annual Report  
FOR THE YEAR ENDED  
30 JUNE 2016

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

# 360 CAPITAL OFFICE FUND

## Annual Report For the year ended 30 June 2016

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

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## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

#### For the year ended 30 June 2016

The Directors of 360 Capital Investment Management Limited ("CIML"), the Responsible Entity, present their report together with the annual financial report of 360 Capital Office Fund (ARSN 106 453 196) and its controlled entities ("the Fund") (ASX: TOF) for the year ended 30 June 2016.

#### Directors

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

David van Aanholt (Chairman)

Tony Robert Pitt

William John Ballhausen

Graham Ephraim Lenzner

Andrew Graeme Moffat

#### Principal activities

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

#### Operating and financial review

The statutory profit attributable to the unitholders of the Fund for the year ended 30 June 2016 was \$20.4 million (2015: \$12.4 million). The operating profit (profit before specific non-cash and significant items) was \$13.2 million (2015: \$14.0 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 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 3: Segment reporting of the financial statements for the year ended 30 June 2016, which have been subject to audit, refer to page 41 for the auditor's report on the financial statements.

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Profit attributable to the unitholders of the Fund</b>	<b>20,438</b>	12,402
<b>Specific non-cash items</b>		
Net gain on fair value of investment properties	(11,750)	(5,569)
Net loss on fair value of rental guarantee	36	2,414
Rental guarantee cash received	1,111	1,237
Net loss on derivative financial instruments	1,912	1,149
Amortisation of borrowing costs	285	262
Straight-lining of lease revenue	(1,225)	(17)
Amortisation of incentives and leasing fees	927	264
<b>Significant items</b>		
Net loss on sale properties	1,321	1,023
Outstanding duty	134	800
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>13,189</b>	13,965

## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

For the year ended 30 June 2016

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#### Operating and financial review (continued)

The key financial highlights for the full year ended 30 June 2016 include:

- Profit attributable to the unitholders of the Fund of \$20.4 million, representing 27.9 cents per unit (“cpu”);
- Operating profit of \$13.2 million representing 18.0 cpu;
- Distributions of \$12.5 million, representing 17.0 cpu;
- Gearing<sup>1</sup> has reduced to 17.8% from 28.7% as at 30 June 2015;
- Net tangible assets (“NTA”) of \$164.8 million (2015: \$156.8 million) representing \$ 2.25 per unit (2015: \$2.14); and
- The ASX closing price at 30 June 2016 of \$2.25 per unit reflecting NTA, an annualised distribution per unit (“DPU”) yield of 7.6% and a total unitholder return of 15.8%.

The key operational highlights for the full year ended 30 June 2016 include:

- The Fund disposed of 33 Allara Street, Canberra ACT (“33 Allara Street”) for \$29.0 million on 20 November 2015 with net proceeds being utilised to reduce debt;
- Leased over 9,600 square metres (“sqm”) representing 24.7%<sup>2</sup> of the portfolio;
- Maintained strong occupancy<sup>3</sup> of 99.2%;
- Strong WALE<sup>4</sup> of 4.7 years; and
- Independent valuations of two of the Fund’s assets (62.7% of portfolio by value) were completed, resulting in an \$11.8 million increase on the 30 June 2015 book values. As a result of the revaluations, the Fund’s overall WACR<sup>5</sup> firmed 29 basis points to 7.12% compared to 30 June 2015.

#### Property portfolio

The property portfolio continues to perform, maintaining strong occupancy of 99.2% and WALE of 4.7 years. A key focus for the Fund was executing the asset strategy at 33 Allara Street, Canberra. In August 2015, the Fund secured a 12 month extension of the Department of Environment who occupied the office component (9,200 sqm) of the asset which positioned the asset for sale. After a short marketing campaign, the Fund exchanged contracts in November 2015 for a sale price of \$29.0 million, subsequently settling the sale of the asset in late November 2015.

Post the sale of the Fund’s non-core Allara Street asset, the Fund now has no lease expiries until 30 June 2017, being the Queensland Curriculum and Assessment Authority (“QCAA”) at 154 Melbourne Street, South Brisbane.

Independent valuations of two of the Fund’s assets (62.7% of portfolio by value) were completed resulting in an \$11.8 million increase on the 30 June 2015 book values. The Fund’s remaining asset, 154 Melbourne Street, South Brisbane will be independently valued following the conclusion of current lease negotiations. As a result of the revaluations, the Fund’s overall WACR firmed 29 basis points to 7.12% compared to 30 June 2015.

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

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

2. Based on area of 38,835 sqm including 33 Allara St

3. Occupancy by area

4. WALE: Weighted average lease expiry by income

5. WACR: Weighted average capitalisation rate by value

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

### **Responsible Entity report**

**For the year ended 30 June 2016**

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#### **Capital management**

As at 30 June 2016, the Fund had total debt facilities of \$80.0 million of which \$39.7 million was drawn, representing a gearing ratio of 17.8%. The Fund's debt facility expires in April 2017, and will be extended upon redeployment of the current balance sheet capacity. In July 2016 the Fund's interest rate hedges were reduced from \$70.0 million down to \$40.0 million in line with the Fund's drawn debt and are in place at a weighted average interest rate of 2.64% (excluding any margins). The weighted average interest rate hedge term is approximately 3.6 years. The Fund remains well within its debt covenants, with the current Interest Cover Ratio of 6.7 times against a bank covenant of 2.0 times and Loan to Value Ratio of 19.1% against a bank covenant of less than 50.0%.

#### **Net current liability position**

The financial report has been prepared on a going concern basis. The Directors of the Fund note that the Fund is in a net current liabilities position of \$41.0 million due to the classification of borrowings as current as a result of the upcoming facility expiry in April 2017. Given the low gearing of the Fund and the quality property portfolio, the Fund expects to be able to refinance its debt facility prior to expiry in April 2017. Additionally, the operational working capital management procedures in relation to the holding of cash assets mean the Fund has minimal cash and cash equivalents as it is the policy of the Fund to use surplus cash to repay debt. The Fund has the ability to drawdown funds when needed, having available headroom in the Fund's debt facility of \$40.3 million at balance date and therefore the Director's expect the Fund will be able to pay its debts as they fall due.

#### **Reinvestment capacity**

Since listing in April 2014, the Fund has focused on improving underlying earnings quality through recycling non-core assets. These non-core disposals have deleveraged the Fund's balance sheet and provided the Fund with significant capital to pursue higher quality assets.

The Fund has reviewed a significant number of opportunities to date; however, the Fund remains diligent in its approach to acquiring assets that enhance the portfolio and provide long-term EPU and DPU growth. The Fund has balance sheet capacity of up to \$60.0 million available for redeployment.

#### **Summary and Outlook**

The operational strategy for the 2017 financial year is to continue to manage the portfolio to maximise unitholder returns and focus on opportunities for expanding and diversifying the Fund's asset base. It remains a strategic objective of the Fund to achieving a greater relevance and entry into the S&P/ASX 300 AREIT index.

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

### 360 Capital Office Fund and its controlled entities

#### Responsible Entity report

For the year ended 30 June 2016

#### Distributions

Distributions declared during the financial year ended 30 June 2016 are as follows:

	30 June 2016 \$'000	30 June 2015 \$'000
September 2014 quarter paid 4.25 cpu on 24 October 2014	-	3,302
December 2014 quarter paid 4.25 cpu on 23 January 2015	-	3,285
March 2015 quarter paid 4.25 cpu on 24 April 2015	-	3,115
June 2015 quarter paid 4.25 cpu on 24 July 2015	-	3,114
September 2015 quarter paid 4.25 cpu on 23 October 2015	3,115	-
December 2015 quarter paid 4.25 cpu on 27 January 2016	3,114	-
March 2016 quarter paid 4.25 cpu on 28 April 2016	3,115	-
June 2016 quarter paid 4.25 cpu on 26 July 2016	3,114	-
<b>Total distributions</b>	<b>12,458</b>	<b>12,816</b>

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

All fees payable to the Responsible Entity or its related parties are detailed in Note 23 to the financial statements.

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

As at 30 June 2016, related parties of the Responsible Entity held units in the Fund as detailed in Note 23 to the financial statements.

#### Buy-back arrangements

As detailed in the Fund constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from unitholders. No buy-back arrangements occurred in the financial year ended 30 June 2016 (2015: 4.4 million units bought back).

#### Units on issue

The total number of units on issue in the Fund as at 30 June 2016 was 73,279,751 (2015: 73,279,751). No units were issued during the year (2015: Nil).

#### Options

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

#### Environmental Issues

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

#### Significant changes in state of affairs

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

#### Likely developments and expected results of operations

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



## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

For the year ended 30 June 2016

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#### Events subsequent to balance date

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

#### Indemnification and insurance of Directors and Officers

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

#### Indemnification of Auditors

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

#### Non-audit services

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

#### Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 7 and forms part of the Responsible Entity report for the year ended 30 June 2016.

#### Rounding of amounts

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

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



**Tony Robert Pitt**  
Director



**Graham Ephraim Lenzner**  
Director

Sydney  
17 August 2016



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

As lead auditor for the audit of 360 Capital Office Fund for the financial year ended 30 June 2016, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Mark Conroy  
Partner  
17 August 2016

### 360 Capital Office Fund and its controlled entities

#### Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

		30 June 2016 \$'000	30 June 2015 \$'000
	Note		
<b>Revenue from continuing operations</b>			
Rental income	5	19,748	20,624
Finance revenue		65	119
<b>Total revenue from continuing operations</b>		<b>19,813</b>	<b>20,743</b>
<b>Other income</b>			
Net gain on fair value of investment properties	6	11,750	5,569
<b>Total other income</b>		<b>11,750</b>	<b>5,569</b>
<b>Total revenue from continuing operations and other income</b>		<b>31,563</b>	<b>26,312</b>
Investment property expenses		3,396	3,729
Management fees	23	1,452	1,486
Other administration expenses	7	403	1,317
Finance costs	8	2,605	2,792
Net loss on fair value of rental guarantee		36	2,414
Net loss on derivative financial instruments	9	1,912	1,149
Net loss on sale of properties		1,321	1,023
<b>Net profit from continuing operations</b>		<b>20,438</b>	<b>12,402</b>
<b>Total comprehensive income for the year</b>		<b>20,438</b>	<b>12,402</b>
<b>Earnings per unit - basic and diluted - cents per unit</b>	11	<b>27.9</b>	<b>16.4</b>

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

### 360 Capital Office Fund and its controlled entities

#### Consolidated statement of financial position

As at 30 June 2016

		30 June 2016 \$'000	30 June 2015 \$'000
	Note		
<b>Current assets</b>			
Cash and cash equivalents	12	2,590	3,421
Receivables	13	489	988
<b>Total current assets</b>		<b>3,079</b>	<b>4,409</b>
<b>Non-current assets</b>			
Investment properties	14	206,828	223,881
Rental guarantee	14	1,072	2,219
<b>Total non-current assets</b>		<b>207,900</b>	<b>226,100</b>
<b>Total assets</b>		<b>210,979</b>	<b>230,509</b>
<b>Current liabilities</b>			
Trade and other payables	15	1,507	2,391
Distribution payable	16	3,114	3,114
Borrowings	17	39,445	-
<b>Total current liabilities</b>		<b>44,066</b>	<b>5,505</b>
<b>Non-current liabilities</b>			
Borrowings	17	-	67,983
Derivative financial instruments	18	2,107	195
<b>Total non-current liabilities</b>		<b>2,107</b>	<b>68,178</b>
<b>Total liabilities</b>		<b>46,173</b>	<b>73,683</b>
<b>Net assets</b>		<b>164,806</b>	<b>156,826</b>
<b>Equity</b>			
Issued units	19	329,817	329,817
Accumulated losses		(165,011)	(172,991)
<b>Total equity</b>		<b>164,806</b>	<b>156,826</b>

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

**360 Capital Office Fund and its controlled entities**
**Consolidated statement of changes in equity**
**For the year ended 30 June 2016**

	<b>Note</b>	<b>Issued units \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
<b>Balance at 1 July 2015</b>		329,817	(172,991)	156,826
Total comprehensive income for the year		-	20,438	20,438
<b>Transactions with unitholders in their capacity as unitholders</b>				
Distributions paid and payable	4	-	(12,458)	(12,458)
			(12,458)	(12,458)
<b>Balance at 30 June 2016</b>		<b>329,817</b>	<b>(165,011)</b>	<b>(164,806)</b>
<b>Balance at 1 July 2014</b>		338,922	(172,577)	166,345
Total comprehensive income for the year		-	12,402	12,402
<b>Transactions with unitholders in their capacity as unitholders</b>				
Unit buy-back	19	(9,105)	-	(9,105)
Distributions paid and payable	4	-	(12,816)	(12,816)
		(9,105)	(12,816)	(21,921)
<b>Balance at 30 June 2015</b>		<b>329,817</b>	<b>(172,991)</b>	<b>156,826</b>

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

### 360 Capital Office Fund and its controlled entities

#### Consolidated statement of cash flows

For the year ended 30 June 2016

		30 June 2016 \$'000	30 June 2015 \$'000
	Note		
<b>Cash flows from operating activities</b>			
Cash receipts from customers (inclusive of GST)		23,133	23,690
Cash payments to suppliers (inclusive of GST)		(8,024)	(8,503)
Finance revenue		65	119
Finance expenses		(2,543)	(2,600)
<b>Net cash inflows from operating activities</b>	21	<b>12,631</b>	12,706
<b>Cash flows from investing activities</b>			
Payments for additions to investment properties		(220)	(1,641)
Payments of leasing fees and incentives		(640)	(113)
Payments for acquisition of investment properties		-	(49,299)
Proceeds from sale of investment properties		28,679	79,003
<b>Net cash inflows from investing activities</b>		<b>27,819</b>	27,950
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	59,972
Repayment of borrowings		(28,815)	(78,052)
Payments of refinancing costs		(8)	(1,974)
Payment of unit buyback		-	(9,105)
Distributions paid to unitholders		(12,458)	(13,004)
<b>Net cash outflows from financing activities</b>		<b>(41,281)</b>	(42,163)
Net decrease in cash and cash equivalents		(831)	(1,507)
Cash and cash equivalents at the beginning of the year		3,421	4,928
<b>Cash and cash equivalents at the end of the year</b>	12	<b>2,590</b>	3,421

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

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

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#### Note 1: Basis of preparation

##### a) Reporting entity

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

The financial report was authorised for issue by the Board on 17 August 2016.

The principal accounting policies adopted in the preparation of the financial report are set out in Note 27.

##### b) Statement of compliance

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

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

##### c) Basis of preparation

###### Basis of preparation

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

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

The financial report is presented in Australian dollars.

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

###### Net current liability position

The financial report has been prepared on a going concern basis. The Directors of the Fund note that the Fund is in a net current liabilities position of \$41.0 million due to the classification of borrowings as current as a result of the upcoming facility expiry in April 2017. Given the low gearing of the Fund and the quality property portfolio, the Fund expects to be able to refinance its debt facility prior to expiry in April 2017. Additionally, the operational working capital management procedures in relation to the holding of cash assets mean the Fund has minimal cash and cash equivalents as it is the policy of the Fund to use surplus cash to repay debt. The Fund has the ability to drawdown funds when needed, having available headroom in the Fund's debt facility of \$40.3 million at balance date and therefore the Director's expect the Fund will be able to pay its debts as they fall due.

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

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

##### Critical accounting estimates, judgements and assumptions

The preparation of a financial report in conformity with AAS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

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

##### Valuation of investment properties

The Directors ascertain the fair value of investment properties after having regard to independent valuations which are undertaken at least once in a two year period. These valuations are determined through the use of the properties' lease profile and direct market comparison and include the valuers' assessments of appropriate capitalisation rates and discounted cash flow rates. The valuations are in accordance with accounting policy Note 27 (I).

##### Derivative financial instruments

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

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

The accounting policies set out in Note 27 have been applied consistently to all years presented in this financial report. The accounting policies have been applied consistently by all entities in the Fund.

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

The Fund has applied the amendments contained in the Corporations Amendment (Corporate Reporting Reform) Bill 2010 in the preparation of this financial report which allows for removing the requirement in consolidated financial statements to include full parent entity information. A note containing information about the Parent Entity has been included at Note 25.



## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2016

#### Note 2: Capital management

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

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

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

For information on issued capital refer to Note 19 and on borrowings refer to Note 17.

#### Note 3: Segment reporting

The Fund invests solely in office properties within Australia.

The Chief Operating Decision Maker, being the Managing Director of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level. As a result, the Fund has only one segment. Operating profit is a financial measure which is not prescribed by AAS and represents the profit under AAS adjusted for specific non-cash and 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.

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

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Profit attributable to the unitholders of the Fund</b>	<b>20,438</b>	12,402
<b>Specific non-cash items</b>		
Net gain on fair value of investment properties	(11,750)	(5,569)
Net loss on fair value of rental guarantee	36	2,414
Rental guarantee cash received <sup>1</sup>	1,111	1,237
Net loss on derivative financial instruments	1,912	1,149
Amortisation of borrowing costs	285	262
Straight-lining of lease revenue	(1,225)	(17)
Amortisation of incentives and leasing fees	927	264
<b>Significant items</b>		
Net loss on sale properties	1,321	1,023
Outstanding duty	134	800
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>13,189</b>	13,965
Weighted average number of units ('000)	73,280	75,590
<b>Operating profit/(loss) per unit (profit before specific non-cash and significant items) (EPU) – cents</b>	<b>18.0</b>	18.5

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

**360 Capital Office Fund and its controlled entities****Notes to the financial report****For the year ended 30 June 2016****Note 4: Distributions**

Distributions declared during the financial year ended 30 June 2016 are as follows:

	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
September 2014 quarter paid 4.25 cpu on 24 October 2014	-	3,302
December 2014 quarter paid 4.25 cpu on 23 January 2015	-	3,285
March 2015 quarter paid 4.25 cpu on 24 April 2015	-	3,115
June 2015 quarter paid 4.25 cpu on 24 July 2015	-	3,114
September 2015 quarter paid 4.25 cpu on 23 October 2015	3,115	-
December 2015 quarter paid 4.25 cpu on 27 January 2016	3,114	-
March 2016 quarter paid 4.25 cpu on 28 April 2016	3,115	-
June 2016 quarter paid 4.25 cpu on 26 July 2016	3,114	-
<b>Total distributions</b>	<b>12,458</b>	<b>12,816</b>

**Note 5: Rental income**

	<b>\$'000</b>	<b>\$'000</b>
Rent	19,450	20,871
Straight-lining of lease revenue	1,225	17
Amortisation of incentives and leasing fees	(927)	(264)
	<b>19,748</b>	<b>20,624</b>

**Note 6: Net gain on fair value of investment properties**

		<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
	<b>Note</b>		
Fair value loss of non-current assets held for sale		-	(641)
Fair value gain of investment properties	14	11,750	6,210
		<b>11,750</b>	<b>5,569</b>

**Note 7: Other administration expenses**

	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
Administration expenses	269	517
Outstanding duty	134	800
	<b>403</b>	<b>1,317</b>

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 8: Finance costs

	30 June 2016 \$'000	30 June 2015 \$'000
Interest paid or payable on debt facilities	2,320	2,530
Amortisation of capitalised borrowing costs on debt facilities	285	262
	<b>2,605</b>	<b>2,792</b>

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

	30 June 2016 \$'000	30 June 2015 \$'000
Net loss on fair value of derivative financial instruments	1,912	1,005
Loss on termination of derivative financial instruments	-	144
	<b>1,912</b>	<b>1,149</b>

#### Note 10: Auditors' remuneration

	\$	\$
<u>Audit services</u>		
Audit services	59,000	60,712
Audit of compliance plan	3,680	2,800
	<b>62,680</b>	<b>63,512</b>
<u>Other services</u>		
Taxation compliance services	27,390	19,950
	<b>90,070</b>	<b>83,462</b>

#### Note 11: Earnings per unit

	30 June 2016 ¢	30 June 2015 ¢
Basic and diluted earnings per unit	27.9	16.4
	<b>\$'000</b>	<b>\$'000</b>
<b>Basic and diluted earnings</b>		
Net profit attributable to unitholders	20,438	12,402
	<b>000's</b>	<b>000's</b>
<b>Weighted average number of units</b>		
Weighted average number of units	73,280	75,590

**360 Capital Office Fund and its controlled entities****Notes to the financial report****For the year ended 30 June 2016****Note 12: Cash and cash equivalents**

	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
Cash at bank	2,590	3,421
Cash and cash equivalents in the statement of cash flows	<b>2,590</b>	<b>3,421</b>

**Note 13: Receivables**

	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
<b>Current</b>		
Trade receivables	55	226
Prepayments and other receivables	434	762
	<b>489</b>	<b>988</b>

**a) Bad and doubtful trade receivables**

During the year, the Fund incurred Nil (2015: \$58,914) in respect of writing off and provisioning for bad and doubtful trade receivables. At balance date the provision for bad and doubtful debts was Nil (2015: \$21,590).

**b) Fair values**

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

**c) Credit risk**

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

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

	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
Current	27	217
1 to 3 months	27	23
More than 3 months	1	8
	<b>55</b>	<b>248</b>

As at 30 June 2016, trade receivables of \$28,176 (2015: \$9,690) were past due but not provisioned for.

**360 Capital Office Fund and its controlled entities**  
**Notes to the financial report**  
**For the year ended 30 June 2016**

**Note 14: Investment properties**

	Date of acquisition	Book value		Capitalisation rate		Discount rate		Date of last external valuation	Last external valuation \$'000
		30 Jun 2016	30 Jun 2015	30 Jun 2016	30 Jun 2015	30 Jun 2016	30 Jun 2015		
		\$'000	\$'000	%	%	%	%		
Investment property valuations									
485 Kingsford Smith Drive, Hamilton Harbour, QLD	Apr 14	74,400	70,000	7.00	7.42	8.00	8.75	Apr 16	74,400
154 Melbourne St, South Brisbane, QLD	Apr 14	77,500	77,500	7.50	7.50	8.50	8.50	Mar 15	77,500
33 Allara St, Canberra, ACT <sup>1</sup>	Dec 05	-	30,000	-	10.25	-	11.5	-	-
Botanicca 8, 576 Swan Street, Richmond, VIC	Feb 15	56,000	48,600	6.75	7.25	7.75	8.25	May 16	56,000
Total		207,900	226,100						
Comprises:									
Fair value of Rental guarantee receivable <sup>2</sup>		1,072	2,219						
Investment Properties		206,828	223,881						
Total		207,900	226,100						
Less lease income receivable		(5,694)	(5,050)						
		202,206	221,050						

<sup>1</sup> Property sold during the period.

<sup>2</sup> The rental guarantee is measured as the present value of the expected future cash flows under the guarantee arrangements. The rental guarantee has been capitalised and relates to the agreement with the vendor of the property at 485 Kingsford Smith Drive, Hamilton Harbour, QLD.

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 14: Investment properties (continued)

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Movement during the year:</b>		
Opening balance as at 1 July	226,100	173,500
Sale of investment property	(30,000)	-
Additions to investment properties	259	886
Acquisitions of investment properties	-	49,299
Net gain on fair value of investment properties	11,750	6,210
Straight-lining of lease revenue	1,225	17
Loss on fair value of rental guarantee	(36)	(2,414)
Rental guarantee cash received	(1,111)	(1,237)
New incentives and leasing fees	640	103
Amortisation of incentives and leasing fees	(927)	(264)
Closing balance	<b>207,900</b>	226,100

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

#### a) Valuation basis

Investment properties are carried at fair value. Fair value of the properties is determined by the Directors, having regard to the most recent independent valuations prepared by valuers with appropriately recognised professional qualification and recent experience in the location and category of the property being valued. Valuation methods used to determine the fair value include market sales comparison, discounted cash flow and capitalisation rate. The fair value for a property may be determined using a combination of these and other valuation methods. As discounted cash flow and capitalisation rate use unobservable inputs, the investment property is categorised as Level 3 under the Fair Value Hierarchy. These inputs include net passing rent, gross market rent and net market rent as set out in the sensitivity matrix in Note 14(b). For all investment properties current use reflects highest and best use.

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

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

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 14: Investment properties (continued)

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

#### b) Sensitivity Matrix

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

Capitalisation and discount rate are considered significant Level 3 inputs. Refer to Note 20 for further information on the fair value hierarchy.

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

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

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

#### c) Leases as lessor

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

	30 June 2016 \$'000	30 June 2015 \$'000
No later than 12 months	14,500	16,370
Between 12 months and five years	36,732	43,845
Greater than five years	17,615	25,028
	<b>68,847</b>	<b>85,243</b>

**360 Capital Office Fund and its controlled entities****Notes to the financial report****For the year ended 30 June 2016****Note 15: Trade and other payables**

	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
Trade payables	16	62
Accruals and other creditors	1,491	2,329
	<b>1,507</b>	<b>2,391</b>

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

**Note 16: Distribution payable**

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

The distribution payable represents the June 2016 quarter distribution (4.25 cpu) which was paid on 26 July 2016.

**Note 17: Borrowings**

	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Borrowings - secured	39,685	-
Capitalised borrowing costs	(240)	-
	<b>39,445</b>	-
<b>Non-current</b>		
Borrowings - secured	-	68,500
Capitalised borrowing costs	-	(517)
	-	<b>67,983</b>
<b>Borrowings - secured</b>		
Total facility limit	80,000	80,000
Used at end of reporting date	39,685	68,500
<b>Unused at end of reporting date</b>	<b>40,315</b>	<b>11,500</b>
<b>Movement during the year:</b>		
Opening balance	68,500	86,580
Repayment of borrowings from Bank	(28,815)	(78,052)
New borrowings	-	59,972
Closing balance	<b>39,685</b>	<b>68,500</b>

**a) Loan facilities summary**

On 20 November 2015, the Fund used the net proceeds from the settlement of 33 Allara Street to repay borrowings.



### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 17: Borrowings (continued)

##### b) Funding Covenants

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

As at 30 June 2016 the debt facility was drawn to \$39.7 million, which represents a LVR of 19.1% based on the latest external valuations adopted, which complied with the bank covenant of less than 50%.

As at 30 June 2016 the interest cover ratio was calculated to be 6.7 times, which complied with the bank covenant of no less than 2.0 times.

##### c) Assets pledged as security

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

The carrying amounts of assets pledged as security are:

	Note	30 June 2016 \$'000	30 June 2015 \$'000
Investment properties	14	207,900	226,100
		<b>207,900</b>	<b>226,100</b>

#### Note 18: Derivative financial Instruments

	\$'000	\$'000
<b>Non-current liabilities</b>		
Interest rate swap contracts - fair value	2,107	195
<b>Total</b>	<b>2,107</b>	<b>195</b>

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

##### Interest rate swap commercial hedge contracts

Interest-bearing liabilities of the Fund carried a weighted average effective interest rate of 5.3% (2015: 4.1%). The debt may be protected all or in part from exposure to increasing interest rates, and to ensure steady cash flow of the Fund. Accordingly, the Fund has entered into interest rate swap contracts totalling \$70 million under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The blended fixed interest rate is 2.64% (2015: 2.64%) excluding any margin and line fees.

Swaps currently in place cover \$70.0 million or 176.4% (2015: 102.2%) of the loan principal outstanding. In July 2016 the Fund terminated part of its interest rate swaps, reducing the Funds interest rate hedges to \$40.0 million compared to \$39.7 million drawn debt at 30 June 2016.

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

**360 Capital Office Fund and its controlled entities****Notes to the financial report****For the year ended 30 June 2016****Note 19: Equity****(a) Issued Units**

	<b>30 June 2016 000's</b>	<b>30 June 2015 000's</b>
360 Capital Office Fund - Ordinary units issued	73,280	73,280
	<b>\$'000</b>	<b>\$'000</b>
360 Capital Office Fund - Ordinary units issued	329,817	329,817

**(b) Movements in issued units**

Movements in issued units of the Fund for the year ended 30 June 2016 were as follows:

**Movement in number of issued units:**

	<b>000's</b>	<b>000's</b>
Opening balance	73,280	77,700
Unit buy-back	-	(4,420)
Closing balance	<b>73,280</b>	73,280

**Movement in value of issued units:**

	<b>\$'000</b>	<b>\$'000</b>
Opening balance	329,817	338,922
Unit buy-backs	-	(9,105)
Closing balance	<b>329,817</b>	329,817

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

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#### Note 20: Other financial assets and liabilities

##### Overview

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

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

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

##### Credit risk

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

	30 June 2016 \$'000	30 June 2015 \$'000
Cash and cash equivalents	2,590	3,421
Receivables	489	988
<b>Total</b>	<b>3,079</b>	<b>4,409</b>

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

##### Market risk

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

##### Interest rate risk

The Fund's interest rate risk arises from long term borrowings and cash balances. Borrowings are at variable interest rates and expose the Fund to cash flow interest rate risk. The Fund utilises derivative financial instruments to hedge exposure to fluctuations in interest rates.

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 20: Other financial assets and liabilities (continued)

The Fund's exposure to interest rate risk and the effective weighted average interest rate by maturity period is:

	Floating interest rate \$'000	Fixed interest maturing in 1 year or less \$'000	Fixed interest maturing in 1 to 5 years \$'000	Fixed interest maturing more than 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>30 June 2016</b>						
<u>Financial assets</u>						
Cash and cash equivalents	2,590	-	-	-	-	2,590
Trade and other receivables	-	-	-	-	489	489
Total financial assets	<b>2,590</b>	-	-	-	<b>489</b>	<b>3,079</b>
Weighted average interest rate	2.00%					
<u>Financial liabilities</u>						
Trade and other payables	-	-	-	-	1,507	1,507
Distributions payable	-	-	-	-	3,114	3,114
Borrowings	-	-	39,685	-	-	39,685
Derivative financial instruments	-	-	-	-	2,107	2,107
Total financial liabilities	-	-	<b>39,685</b>	-	<b>6,728</b>	<b>46,413</b>
Weighted average interest rate			5.33%			
Net financial assets (liabilities)	<b>2,590</b>	-	<b>(39,685)</b>	-	<b>(6,239)</b>	<b>(43,334)</b>
<b>30 June 2015</b>						
<u>Financial assets</u>						
Cash and cash equivalents	3,421	-	-	-	-	3,421
Trade and other receivables	-	-	-	-	988	988
Total financial assets	<b>3,421</b>	-	-	-	<b>988</b>	<b>4,409</b>
Weighted average interest rate	1.50%					
<u>Financial liabilities</u>						
Trade and other payables	-	-	-	-	2,391	2,391
Distributions payable	-	-	-	-	3,114	3,114
Borrowings	-	-	68,500	-	-	68,500
Derivative financial instruments	-	-	-	-	195	195
Total financial liabilities	-	-	<b>68,500</b>	-	<b>5,700</b>	<b>74,200</b>
Weighted average interest rate			4.09%			
Net financial assets (liabilities)	<b>3,421</b>	-	<b>(68,500)</b>	-	<b>(4,712)</b>	<b>(69,791)</b>

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 20: Other financial assets and liabilities (continued)

##### Summarised interest rate sensitivity analysis

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

		Change in interest rate	
		-1%	+1%
	Carrying amount	Profit	Profit
	\$'000	\$'000	\$'000
<b>30 June 2016</b>			
<u>Financial assets</u>			
Cash and cash equivalents	2,590	(26)	26
<u>Financial liabilities</u>			
Derivative financial instruments	2,107	(2,477)	2,386
Total increase (decrease)		<b>(2,503)</b>	<b>2,412</b>
<b>30 June 2015</b>			
<u>Financial assets</u>			
Cash and cash equivalents	3,421	(34)	34
<u>Financial liabilities</u>			
Derivative financial instruments	195	(3,061)	2,919
Total increase (decrease)		<b>(3,095)</b>	<b>(2,953)</b>

##### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Board has a policy of prudent liquidity risk management ensuring that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund monitors its exposure to liquidity by ensuring that there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due.

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

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 20: Other financial assets and liabilities (continued)

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

	Carrying amount \$'000	Contractual cash flow \$'000	Less than 1 Year \$'000	Between 1- 5 Years \$'000	Over 5 Years \$'000
<b>30 June 2016</b>					
Trade and other payables	1,507	1,507	1,507	-	-
Distribution payable	3,114	3,114	3,114	-	-
Borrowings	39,445	40,977	40,977	-	-
Derivative financial instruments	2,107	1,710	481	1,229	-
	<b>46,173</b>	<b>47,308</b>	<b>46,079</b>	<b>1,229</b>	-
<b>30 June 2015</b>					
Trade and other payables	2,391	2,391	2,391	-	-
Distribution payable	3,114	3,114	3,114	-	-
Borrowings	67,983	72,909	2,457	70,452	-
Derivative financial instruments	195	1,580	347	1,233	-
	<b>73,683</b>	<b>79,994</b>	<b>8,309</b>	<b>71,685</b>	-

#### Other markets risk

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

#### Fair values

The fair values of all financial instruments with the exception of borrowings approximate their carrying values. This is largely due to the short-term maturities of these instruments. The fair value of borrowings is categorised within the fair value hierarchy as a Level 2 input. Set out below is a comparison of the carrying amount and fair value of borrowings as at 30 June 2016:

	Carrying amount		Fair value	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
<b>Financial liabilities</b>				
Borrowings	39,445	67,983	39,685	68,500
<b>Total non-current financial liabilities</b>	<b>39,445</b>	<b>67,983</b>	<b>39,685</b>	<b>68,500</b>

#### 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)

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 20: Other financial assets and liabilities (continued)

##### Fair value risk

The carrying amounts of assets and liabilities measured at fair value through profit and loss included in the statement of financial position represent the Fund's exposure to fair value risk. Fair value risk management with respect to the Investment properties is detailed in Note 14. Fair value risk management with respect to financial instruments which are measured at fair value through profit and loss are detailed below.

As at 30 June 2016, the Fund held the following classes of financial instruments measured at fair value:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments as at 30 June 2016	2,107	-	2,107	-
Derivative financial instruments as at 30 June 2015	195	-	195	-

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

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

##### **Valuation techniques**

##### Rental guarantee

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

##### Derivative financial instruments

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

##### Borrowings

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

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 21: Reconciliation of net profit to net cash inflows from operating activities

	30 June 2016 \$'000	30 June 2015 \$'000
<b>Net profit for the year</b>	20,438	12,402
<u>Adjustment for:</u>		
Net gain on fair value of investment properties	(11,750)	(5,569)
Net loss on fair value of rental guarantee	36	2,414
Net loss on derivative financial instruments	1,912	1,149
Amortisation of borrowing costs	285	262
Loss on sale of properties	1,321	1,023
<u>Changes in assets and liabilities:</u>		
Decrease in receivables and prepayments	1,273	1,067
Decrease in trade and other payables	(884)	(42)
<b>Net cash inflows from operating activities</b>	<b>12,631</b>	<b>12,706</b>

#### Note 22: Capital commitments and contingencies

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

#### Note 23: Related party transactions

##### Responsible Entity

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

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

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

	30 June 2016 \$	30 June 2015 \$
<b>Fees for the year paid/payable by the Fund:</b>		
Management of the Fund	1,309,608	1,347,057
Custodian fees	109,390	112,255
Fund recoveries	32,523	26,522
	<b>1,451,521</b>	<b>1,485,834</b>



**360 Capital Office Fund and its controlled entities****Notes to the financial report****For the year ended 30 June 2016****Note 23: Related party transactions (continued)**

	<b>30 June 2016 \$</b>	<b>30 June 2015 \$</b>
<b>Aggregate amounts due to the Responsible Entity at balance date:</b>		
Management of the Fund	106,359	115,525
Fund recoveries	7,598	14,081
	<b>113,957</b>	<b>129,606</b>

The Responsible Entity is entitled to a management fee of 0.65% per annum of the gross asset value of the Fund calculated in accordance with the Fund's constitution. The Responsible Entity has elected to charge 0.6% per annum for the financial year ended 30 June 2016.

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

**Unitholdings**

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

	<b>30 June 2016</b>	<b>30 June 2015</b>
<b>360 Capital Diversified Property Fund</b>		
Number of units held	1,895,944	1,895,944
Interest % held	2.59%	2.59%
Distributions paid/payable by the Fund (\$)	322,310	312,494
<b>360 Capital Investment Trust</b>		
Number of units held	16,675,762	16,675,762
Interest % held	22.76%	22.76%
Distributions paid/payable by the Fund (\$)	2,834,880	2,834,880
<b>360 Capital Investment Management Limited</b>		
Number of units held	2,500,000	2,500,000
Interest % held	3.41%	3.41%
Distributions paid/payable by the Fund (\$)	425,000	425,000
<b>360 Capital AREIT Fund</b>		
Number of units held	-	14,075
Interest % held	-	0.02%
Distributions paid/payable by the Fund (\$)	2,367	1,755

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

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#### Note 23: Related party transactions (continued)

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

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

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

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

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

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

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

##### Management personnel Unit holdings

The number of units held directly or indirectly by Directors, Key Management Personnel and their related parties as at 30 June 2016 are as follows:

Name	Position	30 June 2015	Acquisitions	30 June 2016
		Equity Holding		Equity Holding
David van Aanholt	Director	Nil	15,742	15,742
Tony Robert Pitt	Director	100,000	10,000	110,000
William John Ballhausen	Director	50,000	-	50,000
Graham Ephraim Lenzner	Director	Nil	-	Nil
Andrew Graeme Moffat	Director	Nil	-	Nil

**360 Capital Office Fund and its controlled entities****Notes to the financial report****For the year ended 30 June 2016****Note 24: Controlled entities**

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

Name of entity	Country of Domicile	Class of units	Equity Holding	
			30 June	30 June
			2016	2015
			%	%
BDIF 33 Allara Street Unit Trust	Australia	Ordinary	100	100
BDIF 33 AST 19 No. 1	Australia	Ordinary	100	100
BDIF 33 AST 19 No.2	Australia	Ordinary	100	100
BDIF 33 AST 12	Australia	Ordinary	100	100
BDL 33 Allara Street Unit Trust	Australia	Ordinary	100	100
BDL 33 Allara 12	Australia	Ordinary	100	100
BDL 33 Allara 19 No.1	Australia	Ordinary	100	100
BDL 33 Allara 10 No.2	Australia	Ordinary	100	100
Becton Canberra Trust No 2	Australia	Ordinary	100	100
BOPT 422 Lt Collins St Holding Trust	Australia	Ordinary	100	100
BOPT 422 Lt Collins St Sub Trust	Australia	Ordinary	100	100
BOPT Elizabeth Plaza Holding Trust	Australia	Ordinary	100	100
BOPT Elizabeth Plaza Sub Trust	Australia	Ordinary	100	100
BOPT Railway Parade Holding Trust	Australia	Ordinary	100	100
BOPT Railway Parade Sub Trust	Australia	Ordinary	100	100
BOPT Mahuhu Cres HT 1	Australia	Ordinary	100	100
BOPT Mahuhu Cres HT2	Australia	Ordinary	100	100
BOPT Mahuhu Crescent Sub Trust	Australia	Ordinary	100	100

### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

#### Note 25: Parent entity disclosures

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

	<b>30 June 2016 \$'000</b>	<b>30 June 2015 \$'000</b>
Current assets	28,987	4,061
Non-current assets	201,472	196,550
<b>Total assets</b>	<b>230,459</b>	<b>200,611</b>
Current liabilities	4,495	5,434
Non-current liabilities	67,467	68,178
<b>Total liabilities</b>	<b>71,962</b>	<b>73,612</b>
Issued units	329,817	329,817
Accumulated losses	(171,320)	(202,818)
<b>Total equity</b>	<b>158,497</b>	<b>126,999</b>
Net profit for the year	20,399	13,487
<b>Total comprehensive profit for the year attributable to unitholders</b>	<b>20,399</b>	<b>13,487</b>

#### Note 26: Events subsequent to balance date

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

#### Note 27: Statement of significant accounting policies

##### a) Changes in accounting policy

As a result of new or revised accounting standards which became effective for the financial reporting year commencing 1 July 2015, the Fund has changed some of its accounting policies. The affected policies and standards that are applicable to the Fund are:

- AASB 2014-9 *Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements*;
- AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards – 2012-2014 Cycle*;
- AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*;
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 – Materiality*; and
- AASB 1057 *Application of Australian Accounting Standards*.

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

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

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

**For the year ended 30 June 2016**

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#### **b) Basis of consolidation**

##### Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Fund as at 30 June 2016 and the results of all subsidiaries for the year then ended.

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

The Fund uses the purchase method of accounting to account for the acquisition of subsidiaries. Intercompany transactions, balances and recognised gains on transactions between Fund entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Fund.

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

#### **c) Segment reporting**

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

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

#### **d) Revenue recognition**

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

##### Rental from investment properties

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

##### Finance Revenue

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

##### Other income

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

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

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

**For the year ended 30 June 2016**

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##### **e) Finance costs**

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

##### **f) Income tax**

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

##### **g) Impairment of assets**

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

##### **h) Cash and cash equivalents**

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

##### **i) Receivables**

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

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

##### **j) Financial instruments**

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

##### Receivables

Receivables are recognised initially at fair value and subsequently at amortised cost. More information on the treatment is provided in Note 27 (i).

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2016

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#### j) Financial instruments (continued)

##### Derivative financial instruments

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

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

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

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

##### Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out in Notes 27(n) to 27(q)

##### Impairment

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

#### k) Assets held for sale

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

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

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

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

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

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

**For the year ended 30 June 2016**

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##### **k) Assets held for sale (continued)**

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

##### **l) Investment properties**

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

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

##### **m) Rental guarantee**

The rental guarantee is measured as the present value of the expected future cash flows under the guarantee arrangements. Expected future cash flows are dependent on tenancy agreements in place and the discount rate applied at the date of measurement.

##### **n) Trade and other payables**

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

##### **o) Borrowings**

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

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

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



### 360 Capital Office Fund and its controlled entities

#### Notes to the financial report

For the year ended 30 June 2016

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#### p) Provisions

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

#### Distributions

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

#### q) Issued Units

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

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

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

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

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

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

## 360 Capital Office Fund and its controlled entities

### Notes to the financial report

For the year ended 30 June 2016

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

The following new accounting standards, amendments to standards and interpretations have been issued, but are not mandatory as at 30 June 2016. They are available for early adoption, but have not been applied in preparing these financial statements. The Fund plans to adopt these standards on the effective date. The impact of these new standards and interpretations are as follows:

- AASB 9 – *Financial Instruments (Effective January 1, 2018)*. This standard includes requirements to simplify the approach for the classification and measurement of financial instruments. This is not expected to materially impact the Fund's financial statements
- AASB 15 – *Revenue from Contracts with Customers (Effective January 1, 2018)*. This standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. At this stage we are currently assessing whether it is likely to impact on the Fund's financial statements
- AASB 16 – *Leases (Effective January 1, 2019)*. This standard establishes the enhanced reporting requirements of the Lessee and lessor when entering into Leases. At this stage we are currently assessing whether it is likely to impact on the Fund's financial statements

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

- AASB 2016-2 – *Disclosure Initiative: Amendments to AASB 107 (Effective January 1, 2017)*

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

### 360 Capital Office Fund and its controlled entities

#### Directors' declaration

For the year ended 30 June 2016

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- 1) The Directors of 360 Capital Investment Management Limited, the Responsible Entity, declare that:
  - (a) The consolidated financial statements and notes that are set out on pages 8 to 39, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - 2) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
  - 3) The Directors have given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and the Chief Financial Officer for the financial year ended 30 June 2016.
  - 4) The Directors draw attention to Note 1(b) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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



**Tony Robert Pitt**  
Director



**Graham Ephraim Lenzner**  
Director

Sydney  
17 August 2016



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

### Report on the Financial Report

We have audited the accompanying financial report of 360 Capital Office Fund (the "Fund"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the declaration of the directors of 360 Capital Investment Management Limited, the Responsible Entity of the consolidated entity comprising the Fund and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

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

## Opinion

In our opinion:

- a. the financial report of 360 Capital Office Fund is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.



Ernst & Young



Mark Conroy  
Partner  
Sydney  
17 August 2016

## UNITHOLDER INFORMATION

Information below was prepared as at 9 August 2016

### a) Top 20 registered unitholders:

Holder Name	Units held	% of issued units
360 CAPITAL INVESTMENT MANAGEMENT LTD	16,675,762	22.76
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,758,111	10.59
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,982,818	6.80
NATIONAL NOMINEES LIMITED	3,323,972	4.54
360 CAPITAL INVESTMENT MANAGEMENT LIMITED	2,500,000	3.41
WYLLIE GROUP PTY LTD	2,500,000	3.41
CITICORP NOMINEES PTY LIMITED	2,044,984	2.79
360 CAPITAL INVESTMENT MANAGEMENT LTD	1,631,000	2.23
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,033,105	1.41
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	855,512	1.17
MOELIS AUSTRALIA ASSET MANAGEMENT LTD	743,225	1.01
HORRIE PTY LTD	705,475	0.96
B & G PROPERTIES PTY LTD	500,000	0.68
CITICORP NOMINEES PTY LIMITED	382,474	0.52
RS FAMILY HOLDINGS PTY LIMITED	375,000	0.51
ILONA PTY LIMITED	369,000	0.50
HILLMORTON CUSTODIANS PTY LTD	353,000	0.48
ACCURATE PROFILE ROLL FORMING PTY LTD	315,000	0.43
MOELIS AUSTRALIA ASSET MANAGEMENT LTD	250,000	0.34
BNP PARIBAS NOMS PTY LTD	221,649	0.30
<b>Total units held by Top 20 unitholders</b>	<b>47,520,087</b>	<b>64.85</b>
<b>Total units on issue</b>	<b>73,279,751</b>	<b>100.00</b>

### b) Distribution of unitholders:

Number of units held by unitholders	Number of holders	Units held	% of issued units
1 to 1,000	248	48,525	0.07
1,001 to 5,000	451	1,698,634	2.32
5,001 to 10,000	425	3,530,429	4.82
10,001 to 100,000	739	18,825,823	25.69
100,001 and over	32	49,176,340	67.11
<b>Total</b>	<b>1,895</b>	<b>73,279,751</b>	<b>100.00</b>

The total number of unitholders with less than a marketable parcel was 169 and they hold 4,041 units.

### c) Substantial unitholder notices:

Name of unitholder	Date of notice	Units held	% of issued units
360 Capital Investment Management Ltd	08/01/15	21,771,706	29.71
First Samuel Ltd	06/11/15	5,128,400	7.00
Ellerston Capital Limited	25/02/16	5,374,487	7.33

## 360 Capital Office Fund and its controlled entities

For the year ended 30 June 2016

# GLOSSARY

Term	Definition
\$ or A\$ or cents	Australian currency
360 Capital Investment Trust	The managed investment trust (ARSN 141 872 844) that represents part of the stapled entity, 360 Capital
360 Capital Group Limited	The unlisted public company (ACN 146 484 433) that represents part of the stapled entity, 360 Capital
360 Capital or 360 Capital Group	360 Capital Group, the stapled entity comprising 360 Capital Investment Trust and 360 Capital Group Limited
AASB	Australian Accounting Standards Board
AFSL	Australian Financial Services Licence
A-REIT	Australian Real Estate Investment Trust
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited or the market operated by it as the context requires
ASX Guidelines	The ASX Principles of Good Corporate Governance and Best Practice Guidelines
Bankwest	Bankwest (ABN 48 123 123 124)
Board or Board of the responsible entity	Board of Directors of the Responsible Entity
CGT	Capital gains tax
Constitution	The constitution of the Fund, as amended
Corporations Act	Corporations Act 2001 (Cth) as amended from time to time
CPI	Consumer price index
Cpu	Cents per Unit
Director/s	A director of the Responsible Entity
Distribution yield	Rate of return derived by dividing distribution per Unit by the price
Earnings yield	Rate of return derived by dividing earnings per Unit by the price
FOS	Financial Ombudsman Service
Fund Investment Committee	The committee established to oversee the Fund's investments, key recruitment and policies
Fund Listing	The listing of the Fund and its Units on the Australian Securities Exchange (ASX)
FY	Financial year (1 July to 30 June)
Gross Passing Income	The actual income being paid for a property by existing tenants
Gross Proceeds	The aggregate of all moneys (including all rent, licence fees, outgoings and all other amounts) received from tenants and other occupants and users of the real property assets (held directly or indirectly) of the Fund
Group	360 Capital Property Group, the stapled entity comprising 360 Capital Investment Trust and 360 Capital Property Limited
GST	Goods and services tax (Australia)
HY	Half Year (half year from 1 July to 31 December or 1 January to 30 June)
ICR	Interest Cover Ratio meaning net rent received divided by interest expense incurred on the facility
IFRS	International Financial Reporting Standards
LVR	Loan to value ratio meaning interest bearing liabilities (excluding 360 Notes) divided by total property values
NAB	National Australia Bank Limited (ABN 12 004 044 937)
NLA	Net lettable area
NPI	Net property income
NTA	Net tangible assets as per the balance sheet
NTA per Unit	Net tangible assets divided by the number of Units on issue
Operating earnings	Operating earnings is statutory net profit adjusted for non-cash and significant items
p.a.	Per annum
Property/ies	A property or properties owned or to be owned by the Fund
Responsible Entity	360 Capital Investment Management Limited (ACN 133 363 185, AFSL 340 304)
Sqm	Square metres
Unit(s)	A unit in the Fund
Unitholder(s)	The holder of a Unit
WACR	Weighted average capitalisation rate

**360 Capital Office Fund and its controlled entities****For the year ended 30 June 2016**

WALE	Weighted average lease expiry
YTD	Year to date



## **CORPORATE DIRECTORY**

### **Responsible Entity**

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

### **Directors & Officers**

#### Non-Executive Directors

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

#### Executive Director

Tony Robert Pitt (Managing Director)

#### Officers

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

### **Custodian**

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

### **Unit Registry**

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

### **Bankers**

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

Bankwest  
Bankwest Place, 300 Murray Street, Perth WA 6000

### **Auditor**

Ernst & Young  
680 George Street Sydney NSW 2000

### **Website**

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