ASX Release | Appendix 4D

# 360 Capital Industrial Fund

### For the half year ended 31 December 2013

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

This preliminary financial report is given to the ASX in accordance with Listing Rule 4.2.A. This report should be read in conjunction with the Interim Financial Report for the half year ended 31 December 2013. It is also recommended that the Interim Financial Report be considered together with any public announcements made by the Fund. Reference should also be made to the statement of significant accounting polices as outlined in the 30 June 2013 Financial Report. The Interim Financial Report for the period ended 31 December 2013 is attached and forms part of this Appendix 4D.

## Details of reporting period:

Current reporting period: 1 July 2013 – 31 December 2013
Prior corresponding period: 1 July 2012 – 31 December 2012

## Results announcement to the market:

| | 31 Dec 2013 $'000 | 31 Dec 2012 $'000 | Movement $'000 | Movement % |
|---|---|---|---|---|
| Revenue and other income from ordinary activities | 19,552 | 18,417 | 1,135 | 6.2 |
| Profit attributable to members for the half year | 8,550 | 7,676 | 874 | 11.4 |
| Operating profit* | 9,809 | 4,156 | 5,653 | 136 |

*Operating profit is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific non-cash items and significant items. The Directors consider operating profit to reflect the core earnings of the Fund. 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 7 of the Interim Financial Report.

| | 31 Dec 2013 Cents per unit | 31 Dec 2012 Cents per unit | Movement Cents per unit | Movement % |
|---|---|---|---|---|
| Earnings per unit – Basic and Diluted | 9.12 | 16.94* | (7.82) | (46.2) |
| Operating profit per unit | 10.46 | 9.17** | 1.29 | 14.1 |

*31 December 2012 earnings were 4.23 cents per unit. The comparative has been adjusted to 16.94 cents per unit to reflect the 9 July 2013 "4 to 1 unit consolidation".

**31 December 2012 operating profit was 2.29 cents per unit. The comparative has been adjusted to 9.17 cents per unit to reflect the 9 July 2013 "4 to 1 unit consolidation".

# 360 Capital Industrial Fund

360 Capital Group

**For the half year ended 31 December 2013**

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

## Distributions:

| | Cents per unit | Total amount paid $'000 | Date of payment |
|---|---|---|---|
| September quarter distribution | 4.65 | 4,355 | 25 October 2013 |
| December quarter distribution | 4.65 | 4,376 | 24 January 2014 |
| Total distribution for the period ended 31 December 2013 | **9.30** | **8,731** | |
| | | | |
| September quarter distribution | 4.50* | 2,031 | 22 October 2012 |
| December quarter distribution | 4.50* | 2,055 | 25 January 2013 |
| Total distribution for the period ended 31 December 2012 | **9.00** | **4,086** | |

*30 September 2012 quarter and 31 December 2012 quarter distribution was 1.125 cents per unit. The comparative has been adjusted to 4.50 cents per unit to reflect the 9 July 2013 "4 to 1 unit consolidation".

**Distribution Reinvestment Plan**

The key terms of 360 Capital Industrial Fund's distribution reinvestment plan ("DRP") in operation are:

The DRP is not underwritten.
A 1.50% discount is applicable to units issued under the DRP.
No brokerage, commission or other transaction costs will be payable by participants on units acquired under the DRP.
Units acquired under the DRP rank equally with existing units on issue.
The price at which units are allocated under the DRP is the daily volume weighted average market price of 360 Capital Industrial Fund units sold in the ordinary course of trading on the ASX over a period of 10 business days immediately preceding the calculation date whether or not a sale was recorded on any particular day, which is to be a business day no more than 15 days prior to the distribution payment date and unless otherwise determined by the Board, will be at least three business days after the record date.

## Net tangible asset per security:

| | 31 Dec 2013 $ | 31 Dec 2012 $ |
|---|---|---|
| NTA per unit | 1.94 | 2.12* |

*31 December 2012 NTA was $0.53 per unit. The comparative has been adjusted to $2.12 per unit to reflect the 9 July 2013 "4 to 1 unit consolidation".

# 360 CAPITAL INDUSTRIAL FUND

## Interim Financial Report
## For the half year ended 31 December 2013

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

| Contents | Page |
|---|---|


This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by 360 Capital Industrial Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The Directors of 360 Capital Investment Management Limited ("CIML"), the Responsible Entity, present their report together with the interim financial report of 360 Capital Industrial Fund (ARSN 099 680 252) and its controlled entities ("the Fund") (ASX:TIX) for the half year ended 31 December 2013.

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

David van Aanholt (Chairman)
Tony Robert Pitt
William John Ballhausen
Graham Ephraim Lenzner - Appointed 2 October 2013
Andrew Graeme Moffat

On 2 October 2013, 360 Capital Group Limited (formerly Trafalgar Corporate Group Limited) (ASX: TGP) acquired 360 Capital Property Limited. 360 Capital Property Limited wholly owns 360 Capital Investment Management Limited, the Responsible Entity of 360 Capital Industrial Fund.

**Principal activities**
The principal continuing activity of the Fund was investment in industrial properties within Australia. There have been no significant changes in the nature of the Fund's activities since the date of the Fund's establishment.

**Operating and financial review**
The statutory profit attributable to the unitholders of the Fund for the half year ended 31 December 2013 was $8.6 million (December 2012: $7.7 million). The operating profit (profit before specific non-cash items and significant items) was $9.8 million (December 2012: $4.2 million).

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

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit. The operating profit information in the table has not been subject to any specific review procedures by the Fund's auditor but has been extracted from Note 7: Segment reporting of the financial statements for the half year ended 31 December 2013.

| **Operating review (continued)** | **31 December 2013 $'000** | **31 December 2012 $'000** |
|---|---|---|
| Profit attributable to the unitholders of the Fund | 8,550 | 7,676 |
| **Specific non-cash items** | | |
| Net loss/(gain) on fair value of investment properties | 561 | (104) |
| Net loss/(gain) on fair value of derivative financial instruments | 179 | (637) |
| Initial and deferred establishment fees expense forgiven | - | (7,101) |
| Amortisation of borrowing costs | 396 | 387 |
| Straight-lining of lease revenue | (506) | (35) |
| Amortisation of lease fitout incentives | 300 | 405 |
| **Significant items** | | |
| Listing costs | - | 2,539 |
| Net loss on sale of property | 126 | 1,026 |
| Legal fees on change of custodian | 203 | - |
| **Operating profit (before specific non-cash and significant items)** | **9,809** | **4,156** |

The key financial highlights for the half year ended 31 December 2013 include:

- Profit attributable to the unitholders of the Fund of $8.6 million, representing 9.1 cents per unit;
- Operating profit of 10.5 cents per unit;
- Half year distributions of $8.7 million, representing 9.3 cents per unit;
- Net assets of $182.8 million;
- Net tangible assets ("NTA") per unit of $1.94
- S&P/ASX 300 Index Inclusion; and
- The 4 to 1 unit consolidation occurred on 9 July 2013 and normal trading in consolidated units commenced on 16 July 2013.

The key operational highlights for the half year ended 31 December 2013 include:

- Leased 38,700 sqm in the period. A further 18,546 sqm leased post period with all major expires in FY14 and the majority of FY15 now addressed;
- Increased occupancy from 98.4% to 98.7%;
- Increased WALE[1] from 5.1 years to 5.2 years;
- Like-for-like NOI[2] growth of 2.9%;
- Disposed of $9.3m non-core asset; and
- Portfolio WACR[3] of 8.94%.

***Property Portfolio***

The portfolio has maintained a high occupancy of 98.7% aided through an active period of leasing.

Lease renewals of 38,794 sqm to GM Holden, Linfox, Ceva Logistics and Allpower Industries have lifted the WALE to 5.2 years with post period leases of 18,546 sqm to DKSH and Hugo Boss lifting the current WALE further to 5.3 years. The Fund's manageable lease expiry profile over the next 24 months provides strong cashflow certainty. As a result of the leasing activity over the last 6 months all major expires in FY14 and the majority of FY15 expiries have now been addressed.

1. WALE: Weighted average lease expiry
2. NOI: Net operating income
3. WACR: Weighted average capitalisation rate

***Property Portfolio (continued)***

Current vacancy within the portfolio as at 31 December 2013 is limited to 1,506sqm within 3 properties, with the largest of these within the Campbellfield asset which is currently held for sale and scheduled for disposal by the end of FY14. We note, 10,503 sqm at Edinburgh Parks became vacant in February 2014 but is also scheduled for disposal at the end of FY14.

The WACR of the portfolio has remained at 8.93% and the portfolio will be independently valued in June 14 with recent transaction activity expected to drive yields down in addition to the benefits of recent leasing activity.

Like-for-like NPI[1] growth was 2.9 % underpinned by the portfolio's contractual fixed rent increases to 77% of the portfolio.

***Property acquisition and disposal***

In line with its repositioning strategy to dispose of non-core assets, on 18 November 2013 the Fund settled the sale of 40-48 Howleys Road, Notting Hill, VIC for $9.3 million, with net proceeds being used to reduce debt.

On 20 September 2013, the Fund settled on the acquisition of Block 59 Sawmill Circuit, Hume, ACT for a purchase price of $1.6 million. Block 59 is adjacent to an existing Fund investment property, 54 Sawmill Circuit, Hume, ACT. The acquisition will allow an extension of the current industrial facility to meet the existing tenant's requirements for additional space. Walker Corporation has commenced developing the extension which involves $2.6 million of capital investment to be funded by existing debt facility.

At 31 December 2013, 223-235 Barry Rd, Campbellfield, VIC and 5-9 Woomera Ave, Edinburgh Parks, SA were being actively marketed for sale.

***Property valuations***

The valuation of the Fund's property portfolio resulted in a net fair value loss of $0.56 million for the six months ended 31 December 2013. The Fund valued its entire portfolio at 31 December 2013, the properties were internally valued by management. Portfolio property values remained stable for the six months ended 31 December 2013 with the exception of the following properties:

- 223-235 Barry Road, Campbellfield, VIC – A Director's valuation of $4.57 million was adopted, which is in line with the interest from the marketing campaign for sale.
- Block 59 Sawmill Circuit, Hume, ACT – A Director's valuation of $10.6 million was adopted, which included the $1.6 million acquisition of adjacent land for the construction of an additional building.
- 14-17 Dansu Court, Hallam, VIC – A Director's valuation of $15.4 million was adopted, which is in line with the lease renewal to GM Holden.

The carrying value of the property portfolio (including investment properties held for sale) at 31 December 2013 was $333.4 million.

***Capital management and funding***

The net proceeds from property sale were used to reduce the senior facility by $9.1 million. $1.6 million was drawn down in September 2013 to fund the acquisition of Block 59 Sawmill Circuit, Hume, ACT.

1. NPI: Net property income

***Capital management and funding (continued)***

In July 2013, the Fund reduced the facility limit to $180 million and negotiated a reduction in the interest margin on debt from 2.2% to 1.75% from 15 July 2013.

As at 31 December 2013, the debt facility was drawn to $152.9 million, which represents a Loan to Value Ratio ("LVR") of 46%, which complied with the bank covenant of less than 55%.

***Summary & Outlook***

The Fund will continue to implement its strategy and provide unitholders with regular and sustainable income in the form of quarterly distributions and potential capital growth.

The Fund has delivered strong results which have been driven by solid performance of our existing portfolio. The portfolio has performed well, characterised by high occupancy, long term leases and a manageable expiry profile with all major expiries in FY14 and FY15 now addressed.

As a result the Fund has delivered first half operating profit of 10.5 cents per unit and paid distributions of 9.3 cents per unit and delivered on its strategy of providing EPU[1] and DPU[2] growth to unitholders. The Fund is forecasting EPU of 20.5 cents per unit, 2.5% ahead of previous guidance and a DPU of 18.6 cents per unit in line with guidance.

Strong Investment demand for industrial is forecast to continue which should see improved valuation metrics in the coming 6 months.

**Distributions**

Distributions declared during the six months to 31 December 2013 are as follows:

| | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| September 2013 quarter 4.65 cents per unit paid 25 October 2013 | 4,355 | 2,031 |
| December 2013 quarter 4.65 cents per unit paid 24 January 2014 | 4,376 | 2,055 |
| Total distributions | 8,731 | 4,086 |

**Distribution reinvestment plan ("DRP")**

The Fund raised $883,926 and $963,696 through June 2013 quarter and September 2013 quarter DRP respectively. In total, 889,974 units were issued on the distribution payment dates during the six months to 31 December 2013. Units were issued at a 1.5% discount to the Fund's trading price at $2.0539 for the June 2013 quarter and $2.0957 for the September 2013 quarter.

**Rounding of amounts**

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

**Significant changes in state of affairs**

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

1. EPU: Earnings per unit
2. DPU: Distribution per unit

**Events subsequent to balance date**

There are no matters or circumstances not otherwise dealt with in this report or the financial statements that have significantly or may significantly affect the operations of the Fund, or the state of the Fund's affairs in this financial report or current and future financial periods.

**Auditor's independence declaration**

The auditor's independence declaration required under Section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of the Responsible Entity report for the half year ended 31 December 2013.

This report is made in accordance with a resolution of the Directors of 360 Capital Investment Management Limited.

**Tony Robert Pitt**
Director

**Graham Ephraim Lenzner**
Director

Sydney
26 February 2014

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

In relation to our review of the financial report of 360 Capital Industrial Fund for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Mark Conroy

Mark Conroy
Partner

26 February 2013

**360 Capital Industrial Fund**

**Consolidated interim statement of profit or loss and other comprehensive income**

**For the half year ended 31 December 2013**

| | Note | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Rental income | | 19,484 | 18,247 |
| Finance income | | 68 | 138 |
| Other income | | - | 32 |
| **Total revenue from continuing operations** | | 19,552 | 18,417 |
| | | | |
| **Expenses** | | | |
| Direct property expenses | | (3,706) | (3,711) |
| Amortisation of incentives and leasing fees | | (300) | (405) |
| Management fees | | (1,066) | (1,119) |
| Initial and deferred establishment fees forgiven | | - | 7,101 |
| Custodian fees | | (89) | (194) |
| Trust recoveries | | (10) | (25) |
| Other administration expenses | | (545) | (2,761) |
| Net gain/(loss) on fair value of investment properties | 2,3 | (561) | 104 |
| Net gain/(loss) on fair value of derivative financial instruments | | (179) | 637 |
| Loss on sale of investment properties | | (126) | (1,026) |
| Finance costs | | (4,420) | (9,342) |
| **Net profit from continuing operations** | | 8,550 | 7,676 |
| | | | |
| **Total comprehensive income for the half year** | | 8,550 | 7,676 |
| | | | |
| **Earnings per unit - basic and diluted - cents per unit** | 6 | 9.1 | 16.9 |

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

**360 Capital Industrial Fund**
**Consolidated interim statement of financial position**
**As at 31 December 2013**

| | Note | 31 December 2013 $'000 | 30 June 2013 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 7,901 | 4,820 |
| Trade and other receivables | | 1,525 | 1,608 |
| Investment property - held for sale | 2 | 9,570 | 28,700 |
| **Total current assets** | | 18,996 | 35,128 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 3 | 323,854 | 312,000 |
| **Total non-current assets** | | 323,854 | 312,000 |
| **Total assets** | | 342,850 | 347,128 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 4,111 | 3,813 |
| Distribution payable | | 4,376 | 3,648 |
| **Total current liabilities** | | 8,487 | 7,461 |
| | | | |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 4 | 151,311 | 158,442 |
| Derivative financial instruments | | 253 | 74 |
| **Total non-current liabilities** | | 151,564 | 158,516 |
| **Total liabilities** | | 160,051 | 165,977 |
| **Net assets** | | 182,799 | 181,151 |
| | | | |
| **Equity** | | | |
| Issued capital | 6 | 266,064 | 264,235 |
| Retained earnings | | (83,265) | (83,084) |
| **Total equity** | | 182,799 | 181,151 |

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

**360 Capital Industrial Fund**

**Consolidated interim statement of changes in equity**

**For the half year ended 31 December 2013**

| | Issued capital $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|
| **Balance at 1 July 2013** | 264,235 | (83,084) | 181,151 |
| Total comprehensive income for the half year | - | 8,550 | 8,550 |
| | 264,235 | (74,534) | 189,701 |
| ***Transactions with unitholders in their capacity as unitholders*** | | | |
| Units issued under DRP | 1,848 | - | 1,848 |
| Equity raising cost | (19) | - | (19) |
| Distributions paid to unitholders | - | (8,731) | (8,731) |
| | 1,829 | (8,731) | (6,902) |
| **Balance at 31 December 2013** | 266,064 | (83,265) | 182,799 |

| | Issued capital $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|
| **Balance at 1 July 2012** | 179,145 | (86,931) | 92,214 |
| Total comprehensive income for the half year | - | 7,676 | 7,676 |
| | 179,145 | (79,255) | 99,890 |
| ***Transactions with unitholders in their capacity as unitholders*** | | | |
| Equity issuance | 1,044 | - | 1,044 |
| Distributions paid to unitholders | - | (4,086) | (4,086) |
| | 1,044 | (4,086) | (3,042) |
| **Balance at 31 December 2012** | 180,189 | (83,341) | 96,848 |

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

## 360 Capital Industrial Fund
## Consolidated interim statement of cash flows
## For the half year ended 31 December 2013

| | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Rental income (inclusive of GST) | 20,959 | 20,771 |
| Payments to suppliers (inclusive of GST) | (6,974) | (8,810) |
| Interest received | 68 | 72 |
| Finance costs paid | (4,000) | (8,747) |
| **Net cash from operating activities** | **10,053** | **3,286** |
| | | |
| **Cash flows from investing activities** | | |
| Net proceeds from sale of investment properties | 9,174 | 43,974 |
| Payment for acquisition of investment properties | (1,646) | - |
| Payment for additions to investment properties | (799) | (307) |
| **Net cash from investing activities** | **6,729** | **43,667** |
| | | |
| **Cash flows from financing activities** | | |
| Repayment of interest bearing liabilities | (9,118) | (50,409) |
| Proceeds from interest bearing liabilities | 1,591 | - |
| Payment of borrowing costs | - | (227) |
| Distributions paid to unitholders | (6,174) | (3,837) |
| **Net cash used in financing activities** | **(13,701)** | **(54,473)** |
| | | |
| Net increase/(decrease) in cash and cash equivalents | 3,081 | (7,520) |
| Cash and cash equivalents at the beginning of the half year | 4,820 | 9,102 |
| **Cash and cash equivalents at the end of the half year** | **7,901** | **1,582** |

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

**Note 1: Basis of preparation of half-year report**

These general purpose financial statements for the half-year reporting period ended 31 December 2013 have been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001.*

The interim financial report does not include all the notes of the type normally included within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Fund as the full financial report. Accordingly, this interim financial report should be read in conjunction with the annual financial report for the year ended 30 June 2013.

The financial statements of 360 Capital Industrial Fund for the half year ended 31 December 2013 were authorised for issue with a resolution of the Board of Directors of the Responsible Entity on 26 February 2014.

The accounting policies adopted in this interim financial report are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

As a result of new or revised accounting standards which became effective for the annual reporting period commencing 1 July 2013, the Fund has changed some of its accounting policies. The affected policies and standards are:

- AASB 10 Consolidated Financial Statements
- AASB 13 Fair Value Measurement

<u>AASB 10 Consolidated Financial Statements</u>
AASB 10 establishes a single control model that applies to all entities including special purpose entities. AASB 10 replaces the parts of previously existing AASB 127 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and UIG-12 Consolidation – Special Purpose Entities.

AASB 10 changes the definition of control such that an investor controls an investee when it 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.

To meet the definition of control in AASB 10, all three criteria must be met, including:
(1) An investor has power over an investee;
(2) The investor has exposure, or rights, to variable returns from its involvement with the investee; and
(3) The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

AASB10 does not materially impact Fund's disclosure.

<u>AASB 13 Fair Value Measurement</u>
AASB 13 establishes a single source of guidance under AASB for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under AASB when fair value is required or permitted. The application of AASB 13 has not materially impacted the fair value measurements carried out by the Fund. AASB 13 also requires specific disclosures on fair values. The Fund provides these disclosures in Note 5.

**Note 2: Non-current assets classified as held for sale**

| | Note | 31 December 2013 $'000 | 30 June 2013 $'000 |
|---|---|---|---|
| 60 Marple Avenue, Villawood, NSW | | - | 18,700 |
| 223-235 Barry Road, Campbellfield, VIC | | 4,570 | 5,000 |
| 5-9 Woomera Avenue, Edinburgh Parks, SA | | 5,000 | 5,000 |
| | | 9,570 | 28,700 |
| Less: lease income receivable | | (230) | (570) |
| | | 9,340 | 28,130 |

| | | | |
|---|---|---|---|
| **Movement during the financial period:** | | | |
| Opening balance as at 1 July | | 28,700 | 46,500 |
| Transfer from investment properties | | - | 34,800 |
| Transfer to investment properties | 3 | (18,700) | (10,300) |
| Additions to investment properties | | 32 | 2 |
| Other movements in lease incentives | | (44) | (499) |
| Amortisation of lease incentives | | (24) | (178) |
| Net gain/(loss) on fair value of investment properties | | (394) | (5,425) |
| Disposal | | - | (36,200) |
| Closing balance | | 9,570 | 28,700 |

During the period the Fund decided to cease actively marketing 60 Marple Avenue Villawood, NSW for sale. At 31 December 2013, 223-235 Barry Road, Campbellfield, VIC and 5-9 Woomera Avenue, Edinburgh Parks, SA were both being actively marketed for sale.

## Note 3: Investment properties

| | Date of acquisition | Book value 31 Dec 2013 $'000 | Book value 30 Jun 2013 $'000 | Cap rate 31 Dec 2013 % | Cap rate 30 Jun 2013 % | Discount rate 31 Dec 2013 % | Discount rate 30 Jun 2013 % | Date of last external valuation | Last external valuation $'000 |
|---|---|---|---|---|---|---|---|---|---|
| 12-13 Dansu Court, Hallam, VIC | Dec 03 | **11,350** | 11,350 | **8.75** | 8.75 | **9.75** | 9.75 | Jun13 | 11,350 |
| 14-17 Dansu Court, Hallam, VIC | Dec 03 | **15,400** | 14,600 | **8.75** | 8.75 | **9.75** | 9.75 | Jun13 | 14,600 |
| 39-45 Wedgewood Road, Hallam, VIC | Dec 03 | **8,350** | 8,350 | **9.00** | 9.00 | **9.75** | 9.75 | Jun13 | 8,350 |
| 310 Spearwood Avenue, Bibra Lake, WA | May 05 | **45,000** | 45,000 | **8.67** | 8.67 | **10.00** | 10.0 | Jun13 | 45,000 |
| 6 Albert Street, Preston, VIC | Mar 06 | **17,000** | 17,000 | **10.00** | 10.00 | **10.75** | 10.75 | Jun13 | 17,000 |
| 102-128 Bridge Road, Keysborough, VIC | Jul 06 | **22,000** | 22,000 | **9.25** | 9.25 | **9.50** | 9.50 | Jun13 | 22,000 |
| 60 Marple Avenue, Villawood, NSW [1] | Feb 07 | **18,700** | - | **9.25** | - | **10.50** | - | Jun12 | 19,700 |
| 40-48 Howleys Road, Notting Hill, VIC [2] | May 07 | - | 9,300 | - | 8.75 | - | - | Jun13 | 9,300 |
| 500 Princes Highway, Noble Park, VIC | Oct 07 | **19,000** | 19,000 | **9.25** | 9.25 | **10.00** | 10.00 | Jun13 | 19,000 |
| 8 Penelope Crescent, Arndell Park, NSW | Nov 07 | **14,100** | 14,100 | **8.50** | 8.50 | **9.50** | 9.50 | Jun13 | 14,100 |
| 37-51 Scrivener Street, Warwick Farm, NSW | Jan 08 | **20,900** | 20,900 | **9.75** | 9.75 | **10.50** | 10.50 | Jun13 | 20,900 |
| 54 Sawmill Circuit, Hume, ACT | Jun 12 | **10,554** | 8,900 | **8.50** | 8.50 | **9.50** | 9.50 | Jun13 | 8,900 |
| 9-13 Caribou Drive, Direk, SA | Jun 12 | **9,200** | 9,200 | **8.75** | 8.75 | **9.50** | 9.50 | Jun13 | 9,200 |
| 22 Hawkins Crescent, Bundamba, QLD | Jun 12 | **34,200** | 34,200 | **8.25** | 8.25 | **10.25** | 10.25 | Jun13 | 34,200 |
| 1 Ashburn Road, Bundamba, QLD | Jun 12 | **30,700** | 30,700 | **8.50** | 8.50 | **10.00** | 10.00 | Jun13 | 30,700 |
| 33-59 Clarinda Road, South Oakleigh VIC | Aug 06 | **10,100** | 10,100 | **9.25** | 9.25 | **9.75** | 9.75 | Jun13 | 10,100 |
| 457 Waterloo Road, Chullora, NSW | Jun 13 | **17,300** | 17,300 | **9.25** | 9.25 | **10.00** | 10.00 | Jun13 | 17,300 |
| 69 Studley Court, Derrimut, VIC | Jun 13 | **20,000** | 20,000 | **8.00** | 8.00 | **9.50** | 9.50 | Jun13 | 20,000 |
| **Total** | | **323,854** | 312,000 | | | | | | 331,700 |
| less: lease income receivable | | **(6,754)** | (6,203) | | | | | | |
| | | **317,100** | 305,797 | | | | | | |

[1] Investment property reclassified from held for sale during the period. [2] Investment property sold during the period

**Note 3: Investment properties (continued)**

The Fund undertook internal valuations on all of its properties at 31 December 2013. The adopted capitalisation rates are consistent with those from the previous external valuations.

| | | | |
|---|---|---|---|
| **Movement during the financial period:** | | | |
| Opening balance as at 1 July | | 312,000 | 298,300 |
| Transfer from non-current assets held for sale | 2 | 18,700 | 10,300 |
| Transfer to non-current assets held for sale | | - | (34,800) |
| Additions to investment properties | | 697 | 749 |
| Acquisitions | | 1,646 | 39,464 |
| Disposals | | (9,300) | (8,800) |
| Net gain/(loss) on fair value of investment properties | | (167) | 6,417 |
| Other movements lease incentives | | 554 | 868 |
| Amortisation of lease incentives | | (276) | (498) |
| Closing balance | | 323,854 | 312,000 |

On 18 November 2013, the Fund settled the sale of 40-48 Howleys Road, Notting Hill, VIC for $9.3 million, with net proceeds being used to reduce debt.

On 20 September 2013, the Fund settled on the acquisition of Block 59 Sawmill Circuit, Hume, ACT for a purchase price of $1.6 million. Block 59 is adjacent to an existing Fund investment property, 54 Sawmill Circuit, Hume, ACT. The acquisition will allow an extension of the current industrial facility to meet the existing tenant's requirements for additional space. At 31 December 2013, the Directors adopted an internal valuation of $10.6 million for this combined property.

**Note 4: Interest bearing liabilities**

| | 31 December 2013 $'000 | 30 June 2013 $'000 |
|---|---|---|
| Bank loan National Australia Bank (NAB) – non-current | 152,898 | 160,425 |
| | 152,898 | 160,425 |
| Capitalised borrowing costs - non-current | (1,587) | (1,983) |
| | 151,311 | 158,442 |

| | | |
|---|---|---|
| **Movement during the financial period:** | | |
| Opening balance | 160,425 | 222,581 |
| Repayment of facility from asset sales | (9,118) | (50,493) |
| Repayment of facility from proceeds from capital raising | - | (32,763) |
| Draw down to fund termination of interest rate swap | - | 5,100 |
| Draw down to fund acquisitions | 1,591 | 16,000 |
| Closing balance | 152,898 | 160,425 |

The net proceeds from asset sales reduced the loan facility by $9.1 million during the six month period. A draw down for $1.6 million occurred in September 2013 to fund the acquisition of Block 59 Sawmill Circuit, Hume, ACT.

**Note 4: Interest bearing liabilities (continued)**

On 15 July 2013, the Fund reduced the loan facility limit to $180 million and negotiated to reduce the margin on the facility from 2.2% to 1.75%.

As at 31 December 2013 the debt facility was drawn to $152.9 million, which represents a Loan to Value Ratio ("LVR") of 46%, which complied with the bank covenant of less than 55%.

The Fund has an interest rate swap hedge covering $155 million at a rate of 3%. The interest rate hedge expires in March 2016.

**Note 5: Financial instruments**

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Fund as at 31 December 2013:

| | Loans and receivables $'000 | Fair value profit or loss $'000 |
|---|---|---|
| **Financial assets** | | |
| **Total non-current** | - | - |
| Receivables | 1,525 | - |
| **Total current** | 1,525 | - |
| **Total** | 1,525 | - |
| **Financial liabilities** | | |
| Interest bearing liabilities | 152,898 | - |
| Derivatives | - | 253 |
| **Total non-current** | 152,898 | 253 |
| Trade and other payables | 4,111 | - |
| Distributions payable | 4,376 | - |
| **Total current** | 8,487 | - |
| **Total** | 161,385 | 253 |

**Risk management activities**

Interest rate risk

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

**Note 5: Financial instruments (continued)**

**Fair values**

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2013:

| | Carrying amount $'000 | Fair value $'000 |
|---|---|---|
| **Financial assets** | - | - |
| **Total non-current** | - | - |
| | | |
| Receivables | 1,525 | 1,525 |
| **Total current** | 1,525 | 1,525 |
| **Total** | 1,525 | 1,525 |
| | | |
| **Financial liabilities** | | |
| Interest bearing liabilities | 152,898 | 152,898 |
| Derivatives | 253 | 253 |
| **Total non-current** | 153,151 | 153,151 |
| | | |
| Trade and other payables | 4,111 | 4,111 |
| Distributions payable | 4,376 | 4,376 |
| **Total current** | 8,487 | 8,487 |
| **Total** | 161,638 | 161,638 |

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)

As at 31 December 2013, the Group held the following classes of financial instruments measured at fair value:

| | 31 December 2013 $'000 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|---|
| **Financial liabilities measured at fair value** | | | | |
| Derivatives | 253 | - | 253 | - |

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.

**Note 5: Financial instruments (continued)**

During the six month period to 31 December 2013, 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**

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

**Note 6: Issued capital**

**(a) Issued capital**

| | Note | Half Year 31 December 2013 $'000 | Full Year 30 June 2013 $'000 |
|---|---|---|---|
| 94,112,239 ordinary units fully paid (June 2013: 372,886,435 pre consolidation) | | 266,064 | 264,235 |
| Distributions paid and payable | | 8,731 | 9,789 |
| Distributions paid and payable – cents per unit | | 9.3 | 18.0 |

**(b) Movement during the half year**

| | | |
|---|---|---|
| Opening balance | 264,235 | 179,145 |
| 360 Notes redeemed | - | 1,044 |
| Institutional placement in Apr13 | - | 12,331 |
| Underwritten entitlement offer in May13 | - | 51,377 |
| Placement in Jun13 | - | 24,319 |
| Capitalised DRP capital raising costs | (19) | (3,981) |
| June 2013 quarter DRP | 884 | - |
| September 2013 quarter DRP | 964 | - |
| Closing balance | 266,064 | 264,235 |

The Fund raised $883,926 and $963,696 through June 2013 quarter and September 2013 quarter DRP respectively. In total, 889,974 units were issued on the distribution payment dates during the six months to 31 December 2013. Units were issued at a discount to the Fund's trading price at $2.0539 for June 2013 quarter and $2.0957 for September 2013 quarter.

**(c) Earnings per unit**

31 December 2012 earnings were 4.2 cents per unit pre unit consolidation. The comparative has been adjusted to 16.9 cents per unit for the July 2013 "4 to 1 unit consolidation".

**Note 7: Segment reporting**

The Fund invests solely in industrial properties within Australia.

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

| | 31 December 2013 $'000 | 31 December 2012 $'000 |
|---|---|---|
| Profit attributable to the unitholders of the Fund | 8,550 | 7,676 |
| **Specific non-cash items** | | |
| Net loss/(gain) on fair value of investment properties | 561 | (104) |
| Net loss/(gain) on fair value of derivative financial instruments | 179 | (637) |
| Initial and deferred establishment fees expense forgiven | - | (7,101) |
| Amortisation of borrowing costs | 396 | 387 |
| Straight-lining of lease revenue | (506) | (35) |
| Amortisation of lease fitout incentives | 300 | 405 |
| **Significant items** | | |
| Listing costs | - | 2,539 |
| Net loss on sale of property | 126 | 1,026 |
| Legal fees on change of custodian | 203 | - |
| **Operating profit before specific non-cash and significant items** | **9,809** | **4,156** |

**Note 8: Contingent liabilities and capital commitments**

The Fund has committed to $2.65 million in capital expenditure for the development of Block 59 Sawmill Circuit, Hume ACT.

There are no other known contingent liabilities at 31 December 2013.

**Note 9: Events subsequent to balance date**

There are no matters or circumstances not otherwise dealt with in this report or the financial statements that has significantly or may significantly affect the operations of the Fund, or the state of the Fund's affairs in this financial report or current and future financial periods.

**360 Capital Industrial Fund**
**Directors' declaration**
**For the half year ended 31 December 2013**

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

(a) the consolidated financial statements and notes that are set out on pages 8 to 19 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* (including Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

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

This declaration is made in accordance with a resolution of the Directors of 360 Capital Investment Management Limited.

**Tony Robert Pitt**
Director

**Graham Ephraim Lenzner**
Director

Sydney
26 February 2014

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To the unitholders of 360 Capital Industrial Fund

# Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of 360 Capital Industrial Fund ('the Fund'), which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the half-year end or from time to time during the half-year.

## Directors' Responsibility for the Interim Financial Report

The directors of 360 Capital Investment Management Limited, the Responsible Entity of the Fund, are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 360 Capital Industrial Fund and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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

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## Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Mark Conroy

Mark Conroy
Partner
Sydney
26 February 2014