

27 February 2014

**360 CAPITAL GROUP (TGP)
HY14 RESULTS
\$1.0 BILLION PLATFORM DELIVERING PERFORMANCE**

360 Capital Group (ASX code: TGP) (Group) is pleased to announce its financial results for the six months ending 31 December 2013.

During a transformational period, in October 2013, the Group purchased 360 Capital Property Group in an off-market transaction. This strategic acquisition has transformed the Group into a diversified real estate investment and funds management group.

To fund the acquisition of the 360 Capital Property Group and its other associated strategic opportunities, the Group completed a \$70.8 million equity raising at \$0.59 per Security and refinanced the Group's existing debt facilities.

The Group's investment philosophy is now focused on three key business areas:

- Funds management
- Co-investment in managed funds
- Direct asset investment

Key achievements over the period:

- Acquired 360 Capital Property Group for \$59.0 million transforming the Group
- Acquired the Lawson loan for \$22.6 million (face value \$27.4 million)
- Raised \$70.8 million through institutional placement at 27% premium to trading price
- Refinanced Group with new \$20.0 million debt facility
- Consolidated businesses into Level 8, 56 Pitt Street, Sydney
- Conditionally purchased \$135.5 million of quality office properties as part of \$235.0 million proposed IPO for the 360 Capital Office Fund
- Continued to drive co-investment income with increased FY14 distributions from managed funds
- Increased FUM and direct assets from \$821.4 million at acquisition to \$1.03¹ billion
- Commenced transition to pure funds management and co-investor group with:
 - o settlement of disposal of Granville property for \$5.3 million in August 2013
 - o conditionally exchanged contracts to dispose of Goulburn facility for \$4.3 million

¹ Funds under management (FUM) includes \$135.5m of proposed office asset acquisitions, \$33.0 of CJT total assets (30 June 2013) and the value of direct assets held for sale or repositioning (Goulburn Facility and ATO Hurstville) and excludes value of co-investments and fund loans

360 Capital Group

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Post period activities

- Rationalised non-core managed funds:
 - consolidated the 360 Capital Retail Fund into Group
 - obtained Unitholder approval to ultimately wind up 360 Capital Developments Income Fund
- Contracted to purchase responsible entity to ASX-listed CVC Property Fund (ASX code: CJT)
- Increased Group cash with loan repayment of \$2.3 million from 360 Capital Diversified Property Fund
- Commenced asset repositioning and re-leasing strategy at Group's Hurstville property

HY14 Financial Highlights

- Statutory net profit of \$10.3 million up from \$7.2 million loss in pcg
- Operating profit of \$5.8 million up 176% from \$2.1 million in pcg
- Statutory EPS of 6.66 cps up from 8.44 cps loss in pcg
- Operating EPS of 3.73 cps up 55% from 2.41 cps in pcg
- Sustainable distributions of 2.50 cps for HY14 reflecting payout ratio of 67%
- Net assets increased 171% to \$135.3 million from \$49.9 million as at June 2013
- NTA of \$0.60 per Security up 3.4% from \$0.58 per Security as at 30 June 2013
- Gearing (core) remained low at 6.3% with new \$20.0 million debt facility
- 31 December 2013 trading price of \$0.625 per Security up 28.9% from \$0.485 at 30 June 2013
- Significantly outperformed the S&P/ASX300 Index with 66.2% total return (annualised) over past six months.
- Group's market capitalisation increased 275.5% from \$41.4 million (30 June 2013) to \$155.4 million (31 December 2013)

Direct asset investments

During the period, the Group progressed its strategy of divesting its direct real estate investments and redeploying the capital into higher return on equity activities.

In August 2013, the Group settled the disposal of EDI building at Granville for \$5.3 million, reducing Group debt with the net proceeds.

In December 2013 the Group entered into a conditional sale contract for \$4.3 million in relation to its Goulburn facility, an asset that has previously been difficult to sell. The purchaser is an owner occupier currently going through a development application for the property prior to contract settlement. To date, the development application process has progressed well with completion of the sale expected prior to June 2014.

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Net proceeds from the sale will be used to further reduce Group debt and/or fund the refurbishment program for the Hurstville asset. The carrying value for the Goulburn asset was written down as at 31 December 2013 to reflect the net proceeds from this sale and reflected a decrease of \$0.5 million on the 30 June 2013 carrying value.

The Group's major remaining asset at the ATO building at Hurstville is now being repositioned following the ATO's decision not exercise its option to extend its lease as part of a change of ATO strategy and a major reorganisation of its national accommodation requirements.

The Group had been in negotiations with the ATO to enter into a new lease over all but two floors of the building and had started work to backfill the remaining two floors. However, in December 2013, the Group was notified that the ATO would vacate the whole building when its lease expires on 15 February 2015.

The Group is in discussions with the ATO to start vacating the building in mid-2014. The ATO is working with the Group in this re-leasing campaign and has offered to relinquish space early to allow for a smooth transition.

The property is located within 200 metres of Hurstville train station, is within close proximity to Westfield Hurstville and surrounding amenity, has a high level of carspaces within the property and is 5 star NABERS rated and as such needs minimal capital expenditure to its plant and building services.

360 Capital and its consultants have formalised the building's capital expenditure requirements post the ATO departure, mainly comprising make-good and updating fixtures and fittings such as carpet, window treatments, ceiling lighting and modernising bathrooms. 360 Capital expects these works to cost between \$4.0 and \$5.0 million and to be funded from asset disposal net proceeds.

The Group has appointed Colliers International to undertake the re-leasing campaign following its recent leasing of over 8,000 square metres in the 360 Capital Office Fund's Burwood office complex. A number of inspections have already occurred including NSW State and Federal Government departments and private enterprises.

The NSW State Government has a stated 10 year decentralisation policy which is a key demand driver for suburban markets with good infrastructure and amenity attributes. With this demand, minimal new supply and the withdrawal of lower grade suburban office buildings, A grade vacancy rates in some suburban markets are now as low as 0.5%.

Of the 40,000 square metres of available space across the metropolitan Sydney market, at least 50% is in locations not endorsed by the NSW State Government, making the Hurstville property a potentially attractive proposition.

The Group's strategy of divesting assets and recycling the capital into other activities has not changed as a result of the ATO's departure. However, the Group now has a significant value-add opportunity in re-leasing and repositioning this asset prior to its disposal. With the property's valuation now at its lowest level under the Group's ownership, this repositioning will provide Securityholders with significant returns.

Net profit from direct asset investment for the full six months was \$3.4 million, up from \$2.7 million on pcp mainly as a result of reallocating interest costs in 2013 to other parts of the Group.

Funds management

Although the Group had previously undertaken funds management operations, these operations were subscale and in windup mode prior to the 360 Capital Property Group acquisition.

HY14 financial results for funds management were for the three months from the 360 Capital Property Group acquisition date of 2 October 2013 to 31 December 2013. The Group has elected to allocate most of the operating expenses of the Group to funds management, and as a result this division contributed minimally to Group net earnings during the period.

Management fee revenue for the three months was \$1.9 million. This was before one-off fees of \$2.0 million mainly from the recognition of previously impaired fees from the 360 Capital Developments Income Fund.

As at 31 December 2013, the Group had total FUM and direct assets of \$1.03² billion, including \$135.5 million for two office properties conditionally exchanged in December 2013 and \$33.0 million in total assets (as at 30 June 2013) of the CVC Property Fund (ASX: CJT) where the Group has entered into a contract to purchase CJT's responsible entity.

The 360 Capital Industrial Fund remains the Group's largest managed fund. With high demand for industrial assets resulting in industrial property yields firming to the point where acquisitions would be dilutive to existing Unitholders, the Industrial Fund did not purchase any further assets over the past six months.

In December 2013, the 360 Capital Office Fund conditionally purchased \$135.5 million of high quality office properties and is commencing a capital raising for \$155.0 million and list the Office Fund on the ASX in March 2014. If successful, the recurring management fee from the Fund to the Group will increase by 75%. The Office fund has a mandate to invest in A grade suburban assets and B grade CBD assets, a market characterised by depth and fewer competitors and as such the Office Fund is expected to be one of the main drivers of the Group's recurring management fee revenues. The Group will also benefit from realising \$2.2 million in accrued management fees in the 360 Capital Development Income Fund.

Post period end, the Group conditionally purchased the responsible entity to CJT, a small ASX-listed fund with approximately \$33.0 million in total assets (as at 30 June 2013). The Group is currently undertaking a strategic review of the fund, which will be communicated shortly. In addition to benefitting CJT unitholders, CJT's future strategy is expected to complement both the Group, its managed funds and is not expected to conflict with the strategies of the Group's other managed funds or the business activities of the Group.

Recently, the Group appointed Leon Boyatzis as Head of Unlisted Funds to grow the unlisted funds and syndicates business, and expects to leverage Leon's 13 years' experience in real estate funds management, where he has having previously managed over \$1.0 billion of unlisted property funds.

Currently the Group's five unlisted closed-ended funds, the Diversified Fund and the Developments Income Fund represent total funds under management of \$368.3 million. The Group is seeking to be one of the top five providers of unlisted property funds in Australia and as such intends to grow this business aggressively. Leon is charged with managing the existing unlisted funds and undertaking the growth path for this business.

² Funds under management (FUM) includes \$135.5m of proposed office asset acquisitions, \$33.0 of CJT total assets as at 30 June 2013 and the value of direct assets held for sale or repositioning (Goulburn Facility and ATO Hurstville) and excludes value of co-investments and fund loans

Co-investments in managed funds

As at 31 December 2013, the Group had \$95.5 million in co-investments in, and loans to, its managed funds.

The equity co-investments comprised:

- \$26.8 million representing a 40.8% stake in 360 Capital 111 St Georges Terrace Property Trust
- \$33.8 million representing a 58.9% stake in 360 Capital Diversified Property Fund
- \$1.8 million representing a 9.6% stake in 360 Capital Developments Income Fund

The loan investments comprised:

- \$28.8 million being the Lawson loan to the 360 Capital Developments Income Fund
- \$4.3 million to the 360 Capital Diversified Property Fund.

In the three months from the date of the acquisition of 360 Capital Property Group (2 October 2013) to 31 December 2013, these co-investments generated \$2.5 million in Group operating profit, representing a 15.3% annualised return on capital invested.

The Group also benefited from a further \$4.8 million in statutory profits (considered one-off items) from the uplift in value of the Lawson Loan from its purchase price of \$22.6 million in November 2013 to 31 December holding value of \$28.8 million and \$1.8 million from recognising the value of the Group's 9.6% equity interest in the 360 Capital Developments Income Fund.

The Group's co-investment in the 360 Capital 111 St Georges Terrace Property Trust performed well over HY14 with forecast FY14 distributions on track to be 18.5% higher than FY13.

The Group's investment in the 360 Capital Diversified Property Fund helped drive the Group's NTA up by 3.4% over HY14. It is expected that the 360 Capital Industrial Fund's (which makes up approximately 50% of 360 Capital Diversified Property Fund's investments) recently announced earnings upgrades and unit buy-back will assist to drive Group earnings and NTA higher.

Post 31 December 2013, the \$4.3m loan to the 360 Capital Diversified Property Fund was reduced by \$2.3 million as a result of debt repayments.

With the proposed ASX listing of the 360 Capital Office Fund, the Group has committed to invest \$30.0 million in capital in line with its long-term co-investment strategy. This will be sourced from the repayment of the Lawson Loan and conversion of the Group's equity investment in the 360 Capital Developments Income Fund.

Financial results

The Group statutory profit attributable to securityholders for the six months ended 31 December 2013 was \$10.3 million reflecting a significant turnaround compared to the loss of \$7.2 million for the previous period.

The result for the current period was impacted by a number significant one-off of gains including the "bargain purchase gain" of \$4.3 million arising from the acquisition of 360 Capital Property Group in October 2013, reflecting a discount paid compared to net tangible assets acquired.

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The Group also settled the acquisition of the “Lawson Loan” for consideration of \$22.6 million during the period and subsequently revalued the loan resulting in a gain of \$4.8 million.

These one off gains were off-set by the revaluation of the Group's investment portfolio including the Hurstville property which resulted in a loss of \$5.2 million (after lease amortisation) due to the ATO's decision not to exercise an option to extend its lease and a \$0.5 million reduction in the carrying value of the Goulburn asset reflecting the expected net proceeds from the conditional sale contract.

The underlying operating profit for the six months was \$5.8 million, up from \$2.1 million in the prior corresponding period, reflecting the contribution from the Group's co-investment in its managed funds which comprised distributions from managed funds and interest on loans.

The Group's FY14 earning guidance was increased from forecast EPU of 5.90cps to 6.40cps due to improved funds management fees and interest on loans to funds combined with savings on overheads through synergies realised subsequent to acquisition of 360 Capital Property Group.

The Group's asset backing strengthened with total assets increasing by over \$100.0 million through the acquisition of 360 Capital Property Group and the Lawson Loan, with NTA per Security increasing 3.4% to \$0.60 per Security from \$0.58 per Security as at June 2013. Gearing remained low at 6.3%, a slight increase on 4.9% at June 2013.

Summary and Outlook

The Group continues to focus on rolling out its business plan outlined during the October 2013 capital raising to become a pure funds management and co-investor group.

With the opportunity to add significant value to the Hurstville property over the coming 6-12 months, the capital recycling strategy in relation to this asset has been delayed.

However, the Group remains well capitalised and will continue to maintain a “capital light” strategy, opting to grow earnings and distributions per Security in excess of its peers from a tight capital base.

This strategy is gaining traction with the Group now forecasting its FY14 operating EPS to be 6.40cps, up 8.5% from its previous forecast of 5.90cps.

FY14 distributions remain on track to be 5.0cps and are expected to be 40% to 50% tax deferred.

The Group's NTA is expected to increase mainly from the repositioning of the Hurstville property and from the increasing value of the co-investment stakes due to continuing firming of property yields as local and overseas investors continue to chase well-leased, income producing properties.

The Group's key focuses for the second half of FY14 are:

- List the 360 Capital Office Fund on the ASX and settle associated acquisitions
- Continue the Hurstville property's repositioning strategy and obtain a replacement tenant(s)
- Complete disposal of the Goulburn facility
- Offer new unlisted products to 360 Capital's 8,800-strong investor base

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- Complete acquisition of CJT's responsible entity and finalise the strategic review
- Continue to undertake direct asset acquisitions in the managed funds and be prepared for other potential acquisition opportunities
- Continue to actively manage the property portfolio to maximise Group and fund investor returns

Managing Director, Tony Pitt said "Progress to date has been very pleasing, with the two Groups now fully integrated and the Group's management team continuing to drive the Group forward.

We will remain opportunistic in our approach and by remaining nimble, we will continue to take advantage of opportunities to generate above market returns for Group Securityholders as well as the investors in our managed funds."

An investor/analyst briefing teleconference call will be held on 27 February 2014 at 2:00pm Sydney time. To view the webcast of this teleconference on the day, please visit www.360capital.com.au and follow the links to register.

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About 360 Capital Group (ASX code TGP)

360 Capital is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. The company's 17 full time staff located in Sydney have significant property, funds and investment management experience. 360 Capital manages 9 investment vehicles holding assets valued at approximately \$1.0 billion on behalf of almost 8,800 investors, has over \$90 million worth of co-investments across the 360 Capital platform and owns two direct assets valued at more than \$40 million.

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