

**CHANNEL
ISLANDS
PROPERTY
FUND**

REPORT & AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE PERIOD FROM THE DATE OF INCORPORATION ON
25 AUGUST 2010 TO 31 OCTOBER 2011**

CHANNEL ISLANDS PROPERTY FUND

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CHANNEL ISLANDS PROPERTY FUND

GENERAL INFORMATION

DIRECTORS:	Peter Tom, CBE (appointed 25 August 2010) Paul Bell (appointed 14 October, 2010) Shelagh Mason (appointed 14 October, 2010)
INVESTMENT MANAGER:	Cenkos Channel Islands Limited Level 5 The Market Buildings Fountain Street Guernsey GY1 4JG
INVESTMENT ADVISOR:	Riverside Capital Group Limited Liberty House 222 Regent Street London W1B 5TR
PROPERTY ASSET MANAGER:	Montagu Evans Channel Islands Limited 22 Smith Street St. Peter Port Guernsey GY1 2JQ
ADMINISTRATOR, SECRETARY AND REGISTRAR:	Legis Fund Services Limited 11 New Street St. Peter Port Guernsey GY1 2PF
PRINCIPAL BANKERS:	HSBC Bank Plc PO Box 31 Arnold House St. Julian's Avenue St. Peter Port Guernsey GY1 3AT
INDEPENDENT AUDITORS:	KPMG Channel Islands Limited 20 New Street St. Peter Port Guernsey GY1 4AN

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THE COMPANY

Channel Islands Property Fund Limited (the “Company”) was registered as an Authorised Closed-ended Collective Investment Scheme by the Guernsey Financial Services Commission under The Protection of Investors (Bailiwick of Guernsey) Law, 1987, on 26 October 2010.

INVESTMENT SUMMARY

The Company has been established with the objective of providing an investment opportunity that aims to provide a total return from a combination of capital growth and an appropriate dividend policy through the acquisition and active management of commercial property predominantly in the Channel Islands. Target properties are intended to be fully or partially let and provide a core income which may offer opportunities to add value through active asset management across all sectors of the property market.

Subject thereto there are no geographical or other limitations or restrictions to which investment by the Company is subject. No material change to the above investment objectives and policies may be made within a period of 3 years from Admission without Shareholder approval. The Company may invest in derivatives and investments and funds and companies owning property and financial indices which are property related including, but not limited to, property development.

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CHAIRMAN'S STATEMENT

For the period from the date of incorporation on 25 August 2010 to 31 October 2011

I am pleased to report that the Group has exceeded dividend yield expectations during particularly challenging economic times, declaring a total net distribution of 7 pence per share for its first financial period.

This return is underpinned by the consistent performance of the two underlying property assets, Regency Court in Guernsey and 17-21 Seaton Place in Jersey due to strong tenant covenants and the length of unexpired rental income, combined with the low cost of borrowing, which has been fixed for the duration of the loan on each property.

The Net Asset Value of the Group has decreased over the first trading period, due partly to the treatment of acquisition costs relating to 17-21 Seaton Place and partly to the cautious stance taken on the quantum of increase for each of the two outstanding rent reviews at Regency Court in this turbulent economic period. The properties are valued annually and, at the time of the next valuation in October 2012, a rent review will be due at Seaton Place and the final outstanding rent reviews at Regency Court will be settled. I remain optimistic that this will have a positive effect on next years' valuations.

The Channel Islands have unique property markets, which offer attractive investment opportunities. In Guernsey, restricted supply of good quality office space, combined with continuous demand particularly from the financial sector, means that there is continuous steady rental growth and hence favourable revenue streams for the Group. In Jersey, whilst supply is greater and rental growth has been slower, the covenant strength of tenants and the long-term unbroken nature of the leases ensure that the Group's properties are perceived as lower risk and banks are comfortable to continue lending against them. That being said, it is an important component of the Group's strategy that all interest payable on loans is fixed, to ensure continuity and certainty of net income being available for distribution to shareholders.

I am pleased to report that on 9 December 2011, the Group completed the acquisition of Seaton Investments Limited a company which owns 11-15 Seaton Place in Jersey. It is our intention to invest in further good quality assets over the short to medium term, with the aim of growing the Group and maintaining the current dividend policy, whilst ensuring that we always have sufficient funds to meet our regulatory capital obligations.

Peter Tom, CBE

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INVESTMENT MANAGER'S REPORT

As at 31 October 2011

Interim Investment Manager's Report

Net Asset Value as at 31 October 2011 is 100p (104p on 30 April 2011)

Current Share Price 101p-105p

The Manager is pleased to report that the Group has performed in line with the objectives stated in the offering document over its first financial period.

In line with the Group's aim to provide a return to shareholders through an appropriate dividend policy, the Board of Directors has approved the payment of two interim dividends totalling a net 6p per share and a special dividend of 1p per share. The special dividend has been awarded to shareholders as a result of excess working capital generated within the Company and its subsidiaries during the financial period.

Shares in the Group are relatively liquid with 6,851,600 shares having been traded to date since the Group was listed on the Channel Islands Stock Exchange in November 2010.

The current Net Asset Value (NAV) of the Group is 100p (30 April 2011 104p). The reduction is a direct result of the revaluation of the investment portfolio at 31 October 2011, which is undertaken annually in line with the Group's policy.

Availability of office premises in Guernsey remains scarce, with limited availability in the town centre. We do not believe that there has been any material investment sale in Guernsey over the year nor has any significant office building been offered for sale. The majority of the 2010 rent reviews in St Peter Port have now been finalised and the trend is a continuing rise in office rents.

During the period the Manager has negotiated and concluded the settlement of two of the outstanding rent reviews and remains confident of achieving further uplifts for the two remaining reviews. Excluding the unsettled reviews, an uplift of 6.4% in the rental income has been achieved compared with the passing rent at the time of acquisition.

Although the income has increased, the capital value of Regency Court has moved from £38.78m to £38m.

At the time of acquisition, 85% of the rent was due for review. An estimate of rental value on completion of these reviews was made. Although some rent reviews have been settled at an uplift in line with expectations, they have been agreed on a stepped basis over three years, whilst others remain outstanding. For the purposes of the valuation, a prudent approach has been taken, utilising the first year's rent in the case of the reviews which have been settled and a lower estimated rental value of those which have not.

17-21 Seaton Place has been valued at £11.3m which is an uplift of £200,000 over the acquisition valuation undertaken in December last year. In accordance with International Accounting Standards (IAS), an investment property is initially measured at total cost, which includes transaction costs. The total cost of 17-21 Seaton Place was approximately £12m and therefore the accounts show a reduction in the value of this property.

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In Jersey, the prime office market is still currently static. However, there has been some transactional activity in the market over the year with limited sales taking place and new investments being offered to the market.

The portfolio remains invested in prime long let investments. The current rental income will continue to provide the Group with strong income flows to support the dividend policy. The manager will also continue to focus on asset management opportunities to increase the value of the portfolio.

Over the period, the Manager, Investment Consultant and Property Manager ('the Investment Committee') have reviewed the details of many commercial properties marketed publicly and discretely for sale across the Channel Islands.

The Investment Committee arranged to view several properties which initially met with the investment criteria of the Group and over the summer entered into advanced discussions with the vendors of two of these properties. To date these negotiations have not progressed but the opportunity remains to revisit them again next year.

The Manager is, however, pleased to announce that on 9 December 2011 it completed the acquisition of Seaton Investments Limited, a company which owns 11-15 Seaton Place in Jersey for a total consideration of £9.035m. The acquisition price reflected a net initial yield of the property of 7.5% based on standard purchasers costs at 1.5%.

The property is let in its entirety to Aztec Group Limited for a term of 15 years from March 2009 and comprises approximately 23,700 sq.ft. of accommodation over ground and 3 upper floors with 14 secure car parking spaces.

The Group has raised £4.5m of new equity through the issue of ordinary shares at 100p per share to finance the acquisition with the balance provided as a secured loan from HSBC Bank Plc at 55% loan-to-value.

The Manager remains confident in its ability to grow the Group substantially and is aware of several large investment opportunities in the Channel Islands that will come to market in 2012.

The Manager believes that the Group is nearing such quantum that may satisfy the investment criteria of large institutions thereby enabling accelerated growth through the potential of significant injections of equity funding, should potential investment opportunities arise.

Cenkos Channel Islands Limited

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DIRECTORS' REPORT

For the period from the date of incorporation on 25 August 2010 to 31 October 2011

Channel Islands Property Fund Limited (the "Company") was incorporated on 25 August 2010 and registered on 26 October 2010 as an Authorised closed-ended investment company registered in Guernsey pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Authorised Closed-ended Investment Scheme Rules 2008.

The Directors submit their Report and the Audited Consolidated Financial Statements of the Channel Islands Property Fund Limited together with its subsidiaries (the "Group") for the period from the date of incorporation being 25 August 2010 to 31 October 2011, which have been prepared in accordance with International Financial Reporting Standards, and in accordance with any relevant enactment for the time being in force; and are in agreement with the accounting records, which have been properly kept in accordance with section 244 of The Companies (Guernsey) Law, 2008.

The investment objective of the Group is to provide a total return from a combination of capital growth and an appropriate dividend policy through the acquisition and active management of commercial property predominantly in the Channel Islands.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards and applicable law.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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DIRECTORS' REPORT (CONTINUED)

For the period from the date of incorporation on 25 August 2010 to 31 October 2011

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

ACTIVITIES

The Group's principal activity is that of investment in commercial properties predominately in the Channel Islands.

DIVIDENDS

Interim dividends of £651,750 (£0.03 per share) were paid on 31 May 2011 and 30 November 2011 and a special dividend totalling £217,250 (£0.01 per share) was paid on 30 November 2011 in relation to the period ended 31 October 2011.

DIRECTORS

The Directors of the Group during the period and to the date of this report are as stated on page 2. All the Directors were appointed as detailed on page 2.

DIRECTORS INTERESTS

At the period end, the following directors held the following shares in the Group:

Mr P. Tom, CBE – 500,000

Mr P. Bell – 670,000

Mrs S. Mason - Nil

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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DIRECTORS' REPORT (CONTINUED)

For the period from the date of incorporation on 25 August 2010 to 31 October 2011

AUDITORS

The Directors appointed KPMG Channel Islands Limited (the "Auditor") as auditor of the Group for the period on 14 October 2010. KPMG Channel Islands Limited have expressed their willingness to continue in office as auditors.

Approved by the Board of Directors on 20 December 2011 and signed on its behalf by:

Peter Tom
Director

Paul Bell
Director

CHANNEL ISLANDS PROPERTY FUND

AUDITOR'S REPORT

to the members of Channel Islands Property Fund Limited

We have audited the Group financial statements (the "financial statements") of Channel Islands Property Fund Limited (the "Group") for the period from 25 August 2010 to 31 October 2011 which comprise the Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the IASB.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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AUDITOR'S REPORT (continued)

to the members of Channel Islands Property Fund Limited

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2011 and of its profit for the period from 25 August 2010 to 31 October 2011;
- are in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited

Chartered Accountants

20 December 2011

CHANNEL ISLANDS PROPERTY FUND

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from the date of incorporation on 25 August 2010 to 31 October 2011

	Note	25 August 2010 to 31 October 2011
		£
Income		
Rental income	5	3,178,400
Service charge recharged to tenants	10	437,614
Other operating income	5	61,062
Total operating income		3,677,076
Gains and losses on investments		
Unrealised gain on revaluation of investment property		<u>1,169,274</u>
Total gains on investments		1,169,274
Expenses		
Service charge costs	10	(437,614)
Property operating expenses	10	(10,861)
Management expenses	17	(303,370)
Other operating expenses	11	<u>(423,313)</u>
Total operating expenses		(1,175,158)
Profit before finance costs and tax		3,671,192
Financing		
Interest receivable		1,090
Interest payable	6	<u>(1,533,911)</u>
Total finance costs (net)		(1,532,821)
Total comprehensive profit for the period before tax		2,138,371
Taxation	7	(1,113)
Deferred tax	7	<u>53,863</u>
Total taxation		52,750
Profit for the period		2,191,121
Other comprehensive income		
Movement in fair value of interest rate swap	15	(932,046)
Total comprehensive profit for the period		<u>1,259,075</u>
Basic and diluted earnings per share		<u>0.06</u>

The results of the period relate to continuing operations.

The notes on pages 16 to 36 form an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN NET ASSET ATTRIBUTABLE TO SHAREHOLDERS

For the period from the date of incorporation on 25 August 2010 to 31 October 2011

	Note	Share Capital	Hedging Reserve	Retained Earnings	Total
		£	£	£	£
Profit for the period		-	-	2,191,121	2,191,121
Total other comprehensive income		-	(932,046)	-	(932,046)
Total comprehensive income for the period		-	(932,046)	2,191,121	1,259,075
Dividend paid		-	-	(651,750)	(651,750)
Amounts received on issue of shares	16	21,725,000	-	-	21,725,000
Issue costs		(651,750)	-	-	(651,750)
Balance at 31 October 2011		21,073,250	(932,046)	1,539,371	21,680,575

The notes on pages 16 to 36 form an integral part of these financial statements.

CHANNEL ISLANDS PROPERTY FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 October 2011

	Note	2011 £
Assets		
Investment properties	8	<u>49,300,000</u>
Non-current assets		<u>49,300,000</u>
Trade and other receivables	12	61,052
Cash and cash equivalents		<u>1,666,873</u>
Current assets		<u>1,727,925</u>
Total assets		<u>51,027,925</u>
 Equity		
Share capital	16	21,073,250
Reserves	16	(932,046)
Retained earnings		<u>1,539,371</u>
Total equity		<u>21,680,575</u>
 Liabilities		
Loans and borrowings	14	27,444,850
Interest rate swap	15	932,046
Deferred tax	7	171,951
Non-current liabilities		<u>28,548,847</u>
Other payables	13	798,503
Current liabilities		<u>798,503</u>
Total liabilities		<u>29,347,350</u>
Total equity and liabilities		<u>51,027,925</u>
 Net asset value per Share	21	1.00

The financial statements on pages 12 to 36 were approved by the Board of Directors on 20 December 2011 and are signed on its behalf by:

Peter Tom
Director

Paul Bell
Director

The notes on pages 16 to 36 form an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from the date of incorporation on 25 August 2010 to 31 October 2011

	Note	25 August 2010 to 31 October 2011	£
Reconciliation of Total Return to Net Cashflow			
Operating activities			
Total comprehensive profit for the period before tax		2,138,371	
Adjusted for:			
Loan interest payable		1,533,911	
Unrealised gain on investment properties	8	(1,169,274)	
Bank deposit interest	5	(1,090)	
Deferred tax		53,863	
Increase in debtors and prepayments		(61,052)	
Increase in creditors		<u>867,645</u>	
Net cash inflow from operating activities		<u>3,362,374</u>	
Investment Activities			
Property acquisition	8	<u>(48,130,726)</u>	
Net cash outflow from investment activities		<u>(48,130,726)</u>	
Return on Investments and Servicing of Finance			
Loan interest paid		(1,261,928)	
Bank deposit interest	5	<u>1,090</u>	
Net cash outflow from return on investments and servicing of finance		<u>(1,260,838)</u>	
Financing Activities			
Proceeds from issue of Ordinary Shares	16	21,073,250	
Loans received	14	27,274,563	
Dividends paid		<u>(651,750)</u>	
Net cash inflow from financing activities		<u>47,696,063</u>	
NET CASH INFLOW FOR THE PERIOD		<u>1,666,873</u>	
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>1,666,873</u>	

The notes on pages 16 to 36 form an integral part of these financial statements.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

1 REPORTING ENTITY

Channel Islands Property Fund Limited was incorporated on 25 August 2010 and registered on 26 October 2010 as an Authorised closed-ended investment company registered in Guernsey pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, and the Authorised Closed-ended Investment Scheme Rules. The consolidated financial statements of the Group as at and for the period ended 31 October 2011 comprise the Company and its subsidiaries. The Group's principal activity is that of investment in commercial properties predominately in the Channel Islands.

2 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Statement of compliance

The consolidated financial statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and are in compliance with the Companies (Guernsey) Law, 2008.

In the current period, the Fund has adopted all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as endorsed by the European Union that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2010.

New IFRS accounting standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 7: Financial Instruments: Disclosures - Amendments resulting from May 2010 Annual Improvements to IFRSs - for accounting periods commencing on or after 1 January 2011

IFRS 9: Financial Instruments - Classification and Measurement - for accounting periods on or after 1 January 2013

IFRS 11: Joint Arrangements - for accounting periods on or after 1 January 2013

IFRS 13: Fair value measurement - for accounting periods on or after 1 January 2013

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Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

2. PRINCIPAL ACCOUNTING POLICIES (continued)

New IFRS accounting standards and interpretations not yet adopted (continued)

IAS 24: Related Party Disclosures - Revised definition of related parties - for accounting periods commencing on or after 1 January 2011

IAS 27 (Revised 2011): Separate financial statements - effective for annual periods beginning on or after 1 January 2013

The Directors anticipate that, with the exception of IFRS 9, the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the Group. The Directors have not yet determined what the impact of IFRS 9 will be on the Fund's Statement of Financial Position.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the Investment properties and Interest Rate Swaps that are measured at fair value

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries on consolidation to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Income and expenses

Income and expenses are included in the Statement of Comprehensive Income on an accruals basis. All of the Group's income and expenses are derived from continuing operations. Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

Property operating costs include the costs of professional fees on letting and other non-recoverable costs.

Fees and expenses relating to the establishment of the Group will be borne by the Group. The Group will also incur on-going operational expenses. These expenses include audit costs, taxes and duties imposed by any fiscal authority and any other government fees, costs of valuing and pricing assets, expenses of publishing any reports or notices, bank charges and any other expenses relating to the making of any capital or income distributions, insurance premiums, legal and professional expenses which the Group incurs, whether in litigation on behalf of the Group or in connection with the on-going administration of the Group or otherwise and any other costs of a similar nature.

The income charged to tenants for property service charges and the costs associated with such service charges are shown separately in the Statement of Comprehensive Income to reflect that, notwithstanding this money is held on behalf of tenants occupying the properties, the ultimate risk for paying and recovering these costs rests with the property owner.

Formation expenses

The placing fee will be set off against capital raised. Other formation expenses will be taken to the Consolidated Statement of Comprehensive Income in full in the period in which they are incurred.

Investment property

Investment property is initially measured at cost, being the fair value of the consideration paid, including related transaction costs. After initial recognition, the investment property is carried at fair value. Gains and losses arising from changes in the fair values are included in the Consolidated Statement of Comprehensive Income. The fair value of the investment property is largely based on estimates using property appraisal techniques and other valuation methods. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

Any directly applicable transaction costs incurred in an aborted investment property transaction previously capitalised in the Statement of Financial Position under investment properties are written off to the Consolidated Statement of Comprehensive Income when the transaction is aborted.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary shares are recognised as a deduction from equity.

Financial instruments

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument.

Debtors – debtors do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities – Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Trade and other creditors – Trade and other creditors are not interest bearing and are recorded at their nominal value.

Interest rate swaps – Interest rate swaps are recognised initially at the fair value and subsequently re-measured to their fair value at each reporting date.

Hedge accounting

The group designates certain financial instruments (principally interest rate swaps) as cash flow hedges, subject to the satisfaction of the criteria set out in IAS 39: ‘Financial Instruments: Recognition and Measurement’ for qualifying cash flow hedges, the effective portion of any change in fair value is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of the change in fair value is recognised immediately in profit or loss.

Loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Distributions

Dividends paid during the period will be disclosed as a movement in equity. Final dividends proposed by the Board and approved by the Shareholders prior to the period end will be disclosed as a liability. Dividends proposed but not approved will be disclosed in the notes to the Financial Statements.

Operating leases

The Group leases out investment properties on operating leases.

Taxation

The Company has applied for exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989. It should be noted, however, that the Group is subject to Guernsey taxation at 20% on its net rental income. Pursuant to the exemption granted under the above mentioned Ordinance, the Company is subject to an annual fee, currently £600, payable to the Guernsey Authorities.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences in initial recognition of assets and liabilities in a transaction that it is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that is not probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the recognition of goodwill.

Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period such a determination is made.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Valuation of property

In accordance with the Group's accounting policies, investment property is stated at fair value as at the Consolidated Statement of Financial Position date. Fair value is defined as the estimated amount for which a property should exchange between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted Knowledgeably, Prudently and without compulsion. This is determined by independent valuation experts using recognised valuation techniques. The valuation of Regency Court was prepared by Montagu Evans Channel Islands Limited in accordance with The RICS Appraisal and Valuation Standards, seventh edition. The valuation of Seaton Place was prepared by CB Richard Ellis Limited in accordance with The RICS Appraisal and Valuation Standards, sixth edition. Full valuations are prepared on acquisition and desktop valuations will be performed annually.

Functional currency

The Manager considers Sterling the currency that most faithfully represents the economic effect of the underlying transactions, event and conditions. Sterling is the currency in which the Group measures its performance and reports its results, as well as the currency in which it receives subscriptions for its investors. This determination also considers the competitive environment in which the Group is compared to other Channel Island property investment products.

4. SEGMENTAL INFORMATION

The Group is organised into one main business segment, focusing on achieving long-term total returns through acquisition and holding of commercial property interests. The Group's secondary segment is the geographical segment, based on the one main location of the investments, in the Channel Islands.

5. INCOME

	25 August 2010 to 31 October 2011	£
Bank deposit interest	1,090	
Rental income	3,178,400	
Other income	61,062	
	<hr/>	<hr/>
	3,240,552	<hr/>

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

5. INCOME (continued)

Other income of £50,000 comprises of an amount received to grant access rights to a neighbouring property over part of the Regency Court premises.

As part of the purchase of Seaton Place, rental income and top up rent was received covering the periods from acquisition to 7 August 2011 and 7 November 2012 respectively. These amounts are credited to the Statement of Comprehensive Income over the relevant periods.

6. INTEREST PAYABLE

	25 August 2010 to 31 October 2011
	£
Cornerstone Titan 2006-1 Plc	272,943
HSBC Bank Plc	1,260,968
	<hr/>
	<hr/>
	<hr/>
	1,533,911

The payment to Cornerstone Titan 2006-1 Plc was the interest accrued on the £29,000,000 loan facility which was repaid on 17 January 2011. This loan facility was provided to the previous owner of Regency Court Property to assist with the acquisition of Regency Court.

The payment to HSBC Bank Plc is in relation to the interest charged on the Facility Agreement and Swap Agreement for the period (see note 14 and note 15).

7. TAXATION

The Company is exempt from Income Tax in Guernsey under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989. The Company pays an annual fee to the States of Guernsey Income Tax Office, presently set at £600.

Regency Court Property Limited is subject to Guernsey income tax on rental income arising after the deduction of allowable debt financing costs and allowable expenses. At the end of the period no liability was payable in relation to rental income received.

Seaton Place Property Limited is subject to Jersey income tax on rental income arising after the deduction of allowable debt financing costs and allowable expenses. At the end of the period a liability of £1,113 was payable in relation to rental income received.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

7. TAXATION (continued)

The Guernsey Income Tax Office has confirmed that a 20% tax credit can be attached to the dividends of the Company on the basis that tax has been previously paid by the subsidiaries in respect of their Guernsey and Jersey rental income. Therefore, dividends paid by the Company can be treated as net dividends.

The amounts of deferred taxation provided in the financial statements are:

	31 October 2011
	£
Accelerated capital allowances	171,951
	<hr/> <hr/>
	171,951

The movement in the deferred tax balance was as follows:

	31 October 2011
	£
At start of period	-
Deferred tax on acquisition of subsidiary	225,814
Charged to the Statement of Comprehensive Income	(53,863)
	<hr/>
At end of period - liability	171,951

This provision for deferred tax recognises the accounting effect of the difference between the annual allowances claimed and there being no corresponding provision for depreciation in the financial statements (to the extent that taxable profits exist prior to deduction of such annual allowances).

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

8. INVESTMENT PROPERTY

	Regency Court	Seaton Place	Total
	£	£	£
Additions	35,828,900	11,100,000	46,928,900
Capitalised costs	636,598	565,228	1,201,826
	36,465,498	11,665,228	48,130,726
Unrealised gain/(loss) on revaluation	1,534,502	(365,228)	1,169,274
Fair value at end of period	38,000,000	11,300,000	49,300,000

The Regency Court investment property was valued by Montagu Evans Channel Islands Limited on 31 October 2011. The 17-21 Seaton Place investment property was valued by CB Richard Ellis Limited on 31 October 2011. Both are members of the Royal Institute of Chartered Surveyors.

The basis of the valuations is as described in note 3.

The entire issued share capitals of Regency Court Property Limited and Seaton Place Property Limited (fellow subsidiaries of the parent company) are subject to security agreements in favour of HSBC Bank Plc in respect of loans advanced by HSBC Bank Plc to Regency 1 Limited and Seaton 1 Limited. The obligations of Seaton 1 Limited, Seaton Place Property Limited and Regency 1 Limited, Regency Court Property Limited to HSBC Bank Plc are also the subject of a guarantee and indemnity between these parties in favour of HSBC Bank Plc. The properties at Regency Court, Guernsey and 17-21 Seaton Place, Jersey are also subject to individual bonds in favour of HSBC Bank Plc. Further details are provided in note 14.

9. OPERATING LEASES

Future minimum lease rentals are as follows:

	Minimum lease income due			Total
	Within 1 Year	1 to 5 Years	After 5 Years	
	£	£	£	
31 October 2011	3,370,753	13,557,676	36,162,367	53,090,796

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

9. OPERATING LEASES (continued)

Agreements

Regency Court

The tenancy agreements for the Ground Floor consist of a twenty one year agreement ending October 2026 generating £89,348 per quarter* with a 2.5% increase compounded each third year; and a fifteen year agreement ending June 2021 generating £53,215 per quarter with a review every three years; the next review being due in March 2013.

The tenancy agreements for the First Floor consist of a twenty one year agreement ending June 2025 generating £89,117 per quarter* with a review every three years, the next review being due June 2013; and a twenty one year agreement ending June 2025 generating £79,309 per quarter with a review every three years, the next review being due in June 2013.

The tenancy agreement for the Second and Third Floors consists of a twenty one year agreement ending May 2025 generating £332,125 per quarter* (increasing to £333,990 per quarter with effect from May 2012) with a review every three years, the next review is due May 2013.

The tenancy agreement for the Tennis Court consists of a twenty one year agreement ending May 2025 generating £106 per quarter increasing by GRPI every three years; the next increase is due May 2013.

Seaton Place

The tenancy agreement is a 24 year agreement generating £198,692 per quarter* ending November 2033. The next rent review is due November 2012.

*The tenants of these properties have each contributed more than 10% of the rental income during the period.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

10. PROPERTY OPERATING EXPENSES

Tabled below are the amounts of property operating expenses arising from investment property that generated rental income during the period:

Income generating expenses

	31 October 2011	£
Agents fees	10,861	

There were no property operating expenses that would not generate rental income.

Re-charged expenses

Regency Court Property Limited invoices its tenants for service charges quarterly in advance based upon a budgeted amount for each year. These monies are held in a client account with the Property Manager and are used to settle electricity, water, rates, maintenance, etc. During the period to 31 October 2011 an amount of £437,614 had been incurred in relation to these services.

If one of the tenants was to vacate the property an amount of these expenses would become the responsibility of Regency Court Property Limited in a proportion to the rental income received.

11. OTHER OPERATING EXPENSES

Other operating expenses are made up as follows:

	£
Administration fees	46,875
Insurance	17,419
Audit fees	21,855
Legal and professional fees	102,405
Directors fees	59,315
Marketing expenses	10,290
Formation costs	155,311
Sundry expenses	9,843
	<hr/>
	423,313

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

12. DEBTORS AND PREPAYMENTS

	31 October 2011
	£
Accrued income	55,500
Sundry debtors	4,598
Prepayments	1,454
	<hr/>
	61,052
	<hr/>

13. OTHER PAYABLES

	31 October 2011
	£
Administration fees	12,148
Rent received in advance	534,503
Audit fees	19,000
Investment manager fees	76,703
Rent review fees	45,000
Other creditors	9,453
Loan interest payable – HSBC	101,696
	<hr/>
	798,503
	<hr/>

14. LOANS AND BORROWINGS

	Regency 1 Limited	Seaton 1 Limited	31 October 2011 Total
	£	£	£
Non-current liabilities			
HSBC Bank Plc:			
Principal loan amount outstanding	21,000,000	7,200,000	28,200,000
Set up costs	(588,780)	(336,657)	(925,437)
Amortisation of set up costs	110,920	59,367	170,287
Net loan liability	<hr/> 20,522,140	<hr/> 6,922,710	<hr/> 27,444,850
	<hr/>	<hr/>	<hr/>

The loan facilities were drawn to assist with the purchase of the properties. In accordance with the loan facility agreements the Group has various non-financial and financial covenants that are required to be met. These are reviewed and confirmed to HSBC Bank Plc on a quarterly basis. The covenants include a maximum loan to value ratio of 56% for the Regency facility and 65% for the Seaton facility. The actual loan to value ratios at 31 October 2011 are 55% for Regency and 64% for Seaton. All loan covenants have been met during the period ended 31 October 2011.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

14. LOANS AND BORROWINGS (continued)

Security has been provided by way of a charge over the Group's investment properties for each facility (see note 8). Interest is charged at the aggregate of the Margin, LIBOR and the Mandatory Cost and is payable quarterly in arrears. The Regency 1 loan facility is repayable on 24 November 2015 and the Seaton 1 loan facility is repayable on 24 December 2015.

The Group hedges the Regency Court loan for interest rate risk via a £21,000,000 interest rate swap with HSBC Bank Plc fixed at 2.24% per annum (see note 15). The interest rate swap is due to expire on 2 December 2015.

The Group hedges a portion of the Seaton Place loan for interest rate risk via £6,500,000 interest rate swap with HSBC Bank Plc fixed at 2.25% per annum (see note 15). The interest rate swap is due to expire on 7 January 2016.

15. INTEREST RATE SWAP

	Assets £	Liabilities £	31 October 2011 Notional Amount £
Derivatives primarily held for risk management purposes			
Interest rate swap			
Regency 1 Limited	-	(710,940)	21,000,000
Seaton 1 Limited	-	(221,106)	6,500,000
	<hr/>	<hr/>	<hr/>
	-	(932,046)	27,500,000

Interest on the swaps is receivable at a variable rate calculated on the same LIBOR basis as for the bank loan (as detailed above but excluding the margin) and payable quarterly at a fixed rate of 2.24% per annum for Regency 1 Limited and 2.25% per annum for Seaton 1 Limited. The Regency 1 interest rate swap is due to expire on 2 December 2015 and the Seaton 1 interest rate swap is due to expire on 7 January 2016.

The fair value of the liability in respect of the interest rate swap contract at 31 October 2011 as stated above is based on the marked to market value. The interest rate swap is classified as Level 2 under the hierarchy of fair value measurements for financial instruments required by IFRS 7 (revised).

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

16. SHARE CAPITAL AND RESERVES

Authorised	2011	
	No. of shares	£
An unlimited amount of Ordinary Shares of no par value	-	-
	_____	_____
	-	-
	_____	_____

Issued and Fully Paid	2011	
	No. of shares	£
Ordinary Shares		
Issued during the period	21,725,000	21,725,000
Issue costs		(651,750)
Balance at 31 October	21,725,000	21,073,250

The rights attaching to the Ordinary Shares are as follows:-

- As to income — the holders of Ordinary Shares shall be entitled to receive, and participate in, any dividends or other distributions attributable to the Ordinary Shares and available for dividend or distribution and resolved to be distributed in respect of any accounting period or any other Income or right to participate therein.
- As to capital — the holders of Ordinary Shares shall be entitled on a winding up, to participate in the distribution of capital.
- As to voting — the holders of the Ordinary Shares shall be entitled to receive notice of and to attend and vote at general meetings of the Company.

HEDGING RESERVE	£
Balance at start of period	-
Movement during the period	(932,046)
Balance at end of period	(932,046)

Movements relating to the interest rate swap arrangements accounted for as a cash flow hedge are recognised in this reserve.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

17. RELATED PARTY TRANSACTIONS

Fees Payable to the Property Asset Manager

The Property Asset Manager is entitled to receive a fee at the rate of £49,000 per annum payable quarterly in advance in relation to Regency Court. As this property is multi-let, the full amount is recoverable from the tenants via the service charge.

The Property Asset Manager is entitled to receive a fee at the rate of £10,000 per annum payable quarterly in advance in relation to 17-21 Seaton Place. As this property is single-let, the full amount is payable by the Group.

Fees Payable to the Administrator

The Administrator is entitled to receive a fixed fee, for the first year and for as long as only one investment is held, payable quarterly in arrears, of £36,000 per annum. Thereafter if the Company holds two investments the annual fee is £50,000 per annum, and if the Company holds three or more investments the annual fee is £60,000 per annum.

In addition, shareholder transaction fees will be charged at £100 for each initial subscription and £50 for each redemption, transfer, switch and further subscription from an existing Shareholder.

The Administrator was also entitled to a set-up fee of £20,000.

The Administrator will have the right to be reimbursed from the Company for any reasonable out of pocket expenses incurred in carrying out its responsibilities.

Fees charged by the Administrator during the period were £46,875, of which £12,148 remained unpaid at 31 October 2011.

Acquisition fee

Pursuant to the Investment Management Agreement the Company may pay the Investment Manager an acquisition fee which will not exceed 1.5 per cent of the purchase price of each Investment upon completion of such purchase.

During the period, fees of £533,423 and £166,500 were paid in relation to the acquisition of Regency Court and Seaton Place respectively. These have been capitalised as part of the property acquisition costs.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

17. RELATED PARTY TRANSACTIONS (continued)

Fees payable to the Investment Manager

Management fee

Pursuant to the Investment Management Agreement, the Company will pay the Manager an annual fee equal to 0.6 per cent. per annum of the Gross Asset Value of the Company (which shall include assets that were purchased with leverage) calculated by reference to the Gross Asset Value as at the end of each quarter and payable quarterly in arrears. To the extent that there is a capital raising during a quarter, an adjustment shall be made to Gross Asset Value on a time apportioned basis. Where the completion date of the acquisition of an investment is made part way through a quarter, the portion of the fee paid relating to that investment shall be apportioned pro rata in accordance with the period from the completion date to the end of that quarter.

Fees charged by the Investment manager during the period were £303,370, of which £76,703 remains unpaid at 31 October 2011.

Performance fee

The Manager will be entitled to a performance fee equal to twenty (20) per cent. of any returns received by Shareholders in excess of an IRR of ten (10) per cent. per annum. The performance fee will be levied on all amounts paid to investors in excess of the original amounts invested, plus the equivalent of an IRR of ten (10) per cent per annum.

The performance fee will be payable (a) on the listing of the Company on any recognised investment exchange (excluding the CISX on Admission), (b) when all the Company's Investments have been sold or (c) on the liquidation of the Company.

As at 31 October 2011 there is no performance fee due.

Directors

Peter Tom is entitled to a fee of £20,000 per annum. Paul Bell and Shelagh Mason each receive a fee of £15,000 per annum.

Mr. Peter Tom is a Shareholder of the Investment Manager, Cenkos Channel Islands Limited.

Mr Jon Ravenscroft, the Chief Executive Officer of the Investment Manager, holds 500,000 shares in the Company indirectly.

Mrs Tara Hutcheon, an employee of the Investment manager, holds 280,000 shares in the Company indirectly.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

18. AUDITORS REMUNERATION

The audit fee for the reporting period is £19,000.

KPMG Channel Islands Limited were also engaged to provide tax advice in relation to the set-up of the Regency 1 Group and Seaton 1 Group and received fees of £22,770 and £8,500 respectively for their services.

19. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES

Market price risk

The Group's exposure to market price risk is comprised mainly of movements in the value of the Group's investment property and are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where the sale occurs shortly after valuation date.

The Board manages and monitors this risk by reviewing periodic updates from the Property Manager and ensures that if future properties were to be acquired property acquisition values would be below fair market value where possible.

The performance of the Group would be adversely affected by a downturn in the property market in terms of market value. In the event of default by a tenant or during any other void period, the Group may suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveyor's costs. In re-letting, refurbishment or upgrading costs, maintenance costs, insurances, rates and marketing costs.

Any future property market recession could materially affect the market value of properties. Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as upon changes in its market value.

Rental income and the market value of properties are generally affected by overall conditions in the relevant local economy, such as growth in gross domestic product, employment trends, inflation and changes in interest rates. Changes in gross domestic product may also impact employment levels, which in turn may impact on the demand for premises.

Both rental income and market values may also be affected by other factors specific to the commercial property market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair and re-lease space and the costs thereof, the costs of maintenance and insurance, and increased operating costs.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

19. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

Market price risk (continued)

Any change to the laws and regulations relating to the Guernsey or Jersey commercial property market may have an adverse effect on the market value of the Property Portfolio and/or the rental income of the Property Portfolio.

The Board aims to minimise the rental income risk through careful selection and thorough due diligence on prospective/existing tenants.

At 31 October 2011, if market prices had moved by 5% with other variables remaining constant, the change in net assets attributable to shareholders for the period would amount to approximately, +/- £2,465,000.

Liquidity risk

The Group's main assets are property assets which are traded in an environment where deal timescales can take place over months. As a result, the Group may not be able to liquidate quickly some of its properties at an amount close to its fair value in order to meet liquidity requirements.

The table below analyses the Group's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period at the Consolidated Statement of Financial Position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Over 5 years
	£	£	£
31 October 2011			
Cash and cash equivalents	1,666,873	-	-
Trade receivables	61,052	-	-
Other payables	(798,503)	-	-
Borrowings	-	(27,444,850)	-
Interest rate swaps used for hedging	-	(932,046)	-

The Board monitors this risk by reviewing future cash flow projections of the Group on a regular basis.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

19. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. In the event of a default by a tenant, the Group will suffer a rental income shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property.

Credit risk in respect of other financial assets is reflected in the carrying value of these assets being set to their fair value.

The Board monitors the placement of cash balances on an ongoing basis. All cash is placed with reputable institutions. HSBC Bank Plc has a Fitch rating of AA and a Moody's rating of Aa2.

The following table analyses the Group's maximum exposure to credit risk. The maximum exposure is shown gross, before the effect of mitigation through the use netting at the reporting date:

	2011
	£
Trade and other receivables	61,052
Cash and cash equivalents	1,666,873
	<hr/>
	<hr/> 1,727,925

Interest rate risk

The Group is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its cash positions. Management review market interest rates, cash and bank balances on a regular basis to take advantage of the best rates offered at any time.

In an attempt to minimise risk and smooth cash flows the Group has entered into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between the fixed and variable interest amounts calculated by reference to an agreed-upon notional principle amount in an effort to manage these risks. The continuance of the interest rate hedging instruments is a requirement of the loan agreements entered into with HSBC Bank Plc and their acceptability is monitored by both the Bank, through the completion of compliance certificates on a quarterly basis, and the Investment Manager on a regular basis.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

19. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

The interest rate profile of the financial assets and liabilities as at the Consolidated Statement of Financial Position date is as follows:

	Variable rate financial assets £	Variable rate financial liabilities £	Fixed rate financial liabilities £
At 31 October 2011	1,666,873	(700,000)	(26,567,594)

At 31 October 2011, if interest rates had moved by 5% with other variables remaining constant, the change in net assets attributable to shareholders for the period would amount to approximately, +/- £48,000.

The variable rate financial assets comprise the cash held on account with HSBC, interest on which is received based on the respective base rate. The variable rate financial liabilities comprise the loan with HSBC Bank Plc on which interest is paid in accordance with the Facility Agreement and is not covered by an interest rate hedge. Of the total amount outstanding to HSBC, £27,500,000 has been hedged via Interest Rate Swap Agreements with HSBC to reduce the risk to the Group. The interest charged on the interest rate swap is a fixed rate and therefore not subject to interest rate fluctuation.

20. INVESTMENT IN SUBSIDIARIES

	Domicile	Ownership	2011 £
Regency 1 Limited	Guernsey	100%	3,200,000
Seaton 1 Limited	Guernsey	100%	2,500,001
<hr/>			
<hr/>			
5,700,001			

The Company acquired 100% of the issued share capital of Regency 1 Limited, a company incorporated in Guernsey. Regency 1 Limited owns 100% of the issued share capital of Regency Court Property Limited, a company incorporated in Guernsey.

The Company acquired 100% of the issued share capital of Seaton 1 Limited, a company incorporated in Guernsey. Seaton 1 Limited owns 100% of the issued share capital of Seaton Place Property Limited, a company also incorporated in Guernsey.

Both companies were setup to acquire properties.

CHANNEL ISLANDS PROPERTY FUND

Notes to the Financial Statements for the period from the date of incorporation on 25 August 2010 to 31 October 2011

21. NET ASSET VALUE PER SHARE

	2011
	£
Net asset value attributable to Ordinary	
Shares per financial statements	21,680,575
Adjustments:	
Interest rate swap at fair value	932,046
Formation expenses	118,587
Capitalisation of loan set up costs	(755,150)
Adjustments to accruals	(162,582)
Net asset value per valuation report	21,813,476
Shares in issue	21,725,000
Reported Net Assets per share	1.0041
Audited Net Assets per share	0.9980

22. RESTRICTION ON DIVIDENDS

As a condition of the loan facility agreement with HSBC Bank Plc, the Regency 1 Limited and Seaton 1 Limited are restricted on paying dividends to the Company without obtaining prior written consent. As a Solvency Test will be required before each dividend payment, the Board cannot see any reason why this consent should be withheld so long as the Solvency Test is met.

23. POST BALANCE SHEET EVENTS

On 24 November 2011, the Company acquired Seaton 2 Limited which acquired, on 9 December 2011, 100% of the issued share capital of Seaton Investments Limited which owns 11-15 Seaton Place, Jersey. The acquisition price was £9,035,000 which was funded by £4,535,000 of placing proceeds and a £4,500,000 loan facility with HSBC Bank Plc which is for a 5 year term. The HSBC loan facility has been hedged by an interest rate swap fixed at 1.70%. The issued share capital of Seaton 2 Limited and the property at 11-15 Seaton Place have been placed as security for this new facility.

24. CONTROLLING PARTY

Due to the nature of the ownership of the shares in the Company, in the Directors opinion there is no ultimate controlling party.

CHANNEL ISLANDS PROPERTY FUND

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the first Annual General Meeting of Channel Islands Property Fund Limited (the "Company") will be held at the Venue, Fermain Valley Hotel, Fermain Valley, St Peter Port, Guernsey on Thursday 26 January 2012 at 11 a.m. to transact the business set out in the following Resolutions. All resolutions will be proposed as Ordinary Resolutions.

RESOLUTIONS

ORDINARY RESOLUTIONS:

1. To approve the Report and Audited Financial Statements for the period from incorporation on 25 August 2010 to 31 October 2011.
2. To re-appoint KPMG Channel Islands Limited as auditor of the Company until the conclusion of the next general meeting at which accounts are laid before the Company.
3. To authorise the Directors of the Company to determine the remuneration of the auditor.
4. To re-elect Mr Peter Tom as a Director of the Company
5. To authorise, for the purpose of section 315 of the Companies (Guernsey) Law, 2008, as amended (the "Law"), for the Company to make market acquisitions of its shares for all and any purposes, provided that:
 - a. The maximum number of shares authorised to be purchased shall be 14.99% of the shares in issue;
 - b. The minimum price which may be paid for any share in issue shall be £0.01;
 - c. The maximum price (exclusive of expenses) which may be paid for any share in issue from time to time shall be 105% of the average of the middle market quotations (as derived from the official List of the Channel Islands Stock Exchange, LBG) for such shares for the five business days immediately preceding the date of purchase;
 - d. The authority shall expire at the conclusion of the second Annual General meeting of the Company or unless such authority is renewed, varied or revoked prior to such time save that the Company may, prior to such expiry, enter into a contract to purchase any such shares pursuant to any such contract which would or might be executed wholly or partly after the expiry of such authority; and
 - e. The purchase price may be paid by the Company to the fullest extent permitted by the Law.

By Order of the Board

Legis Fund Services Limited

Company Secretary

11 New Street, St. Peter Port, Guernsey, GY1 2PF

21 December 2011

CHANNEL ISLANDS PROPERTY FUND

NOTES

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a member of the Company.
2. A form of proxy is enclosed and to be valid must be lodged with the Secretary at the Company's registered office, c/o Legis Fund Services Limited, PO Box 91, 11 New Street, St Peter Port, Guernsey, GY1 3EG, not less than 48 hours before the time fixed for the meeting.
3. If you do not intend to attend the meeting please complete and return the form of proxy as soon as possible.

CHANNEL ISLANDS PROPERTY FUND

FORM OF PROXY

**for use at the First Annual General Meeting of
Channel Islands Property Fund Limited (the "Company")
to be held on Thursday 26 January 2012 at 11 a.m.**

We,

of

being the Registered Member(s) of the above named Company hereby appoint the Chairman of the Meeting or

.....(see note 2)

as our proxy to attend represent and vote for us on our behalf on the taking of a poll at the first Annual General Meeting of the Company to be held on Thursday 26 January 2012 at 11 a.m. and at any adjournment thereof.

We hereby confirm that we consent to receiving less notice of the above meeting than the notice period specified in the Company's Articles of Association.

Please indicate with an "X" in the spaces below how you wish your votes to be cast in respect of the resolutions which are set out in the Notice convening the Meeting. If no specific direction as to voting is given, your proxy will vote or abstain at his or her discretion.

Ordinary Resolutions	For	Against	Abstain
1. Approve the Report and Audited Financial Statements for the period from incorporation on 25 August 2010 to 31 October 2011.	()	()	()
2. Re-appoint KPMG Channel Islands Limited as auditor of the Company until the conclusion of the next general meeting at which accounts are laid before the Company.	()	()	()
3. Authorise the Directors of the Company to determine the remuneration of the auditor.	()	()	()
4. Re-elect Mr Peter Tom as a Director of the Company	()	()	()
5. Authorise, for the purpose of section 315 of the Companies (Guernsey) Law, 2008, as amended (the "Law"), for the Company to make market acquisitions of its shares for all and any purposes, provided that: a. The maximum number of shares authorised to be purchased shall be 14.99% of the shares in issue;			

CHANNEL ISLANDS PROPERTY FUND

<p>b. The minimum price which may be paid for any share in issue shall be £0.01;</p> <p>c. The maximum price (exclusive of expenses) which may be paid for any share in issue from time to time shall be 105% of the average of the middle market quotations (as derived from the official List of the Channel Islands Stock Exchange) for such shares for the five business days immediately preceding the date of purchase;</p> <p>d. The authority shall expire at the conclusion of the second Annual General meeting of the Company or unless such authority is renewed, varied or revoked prior to such time save that the Company may, prior to such expiry, enter into a contract to purchase any such shares pursuant to any such contract which would or might be executed wholly or partly after the expiry of such authority; and</p> <p>e. The purchase price may be paid by the Company to the fullest extent permitted by the Law.</p>		()	()	()
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Date..... Signature.....

Number of Shares.....

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Notes:

1. A member entitled to attend, speak and vote is entitled to appoint one or more proxies to attend, speak and vote instead of him. A proxy need not be a member of the Company.
2. If this form is returned without any indication as to the identity of the proxy, the proxy will be deemed to be the chairman of the meeting.
3. The "Abstain" option is provided to enable you to abstain on any particular resolution, however it should be noted that an election to "Abstain" is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.
4. If this form is returned without any indication as to how the proxy should vote, the proxy will be free to vote on any particular matter as he or she thinks fit, or to abstain from voting.
5. Any instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
6. In the case of joint holders of a share, such persons shall not have the right of voting individually but shall elect one of their number to represent them and vote in their names, in default of which the vote of the first named who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose "first named" shall be determined by the order in which the names stand in the register of shareholders.
7. Any corporation which is a member of the Company may authorise such person as it thinks fit to act as its representative at any meeting of the Company or at any meeting of any class of members of the Company and the person so authorised shall be entitled to exercise the same power on behalf of the corporation which he represents as that corporation could exercise if it were an individual member of the Company.
8. This form of proxy, duly executed, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be received at the registered office of the Company, being 11 New Street, St. Peter Port, Guernsey, GY1 2PF, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof at which the person named in the form of proxy proposes to vote and in default the form of proxy shall not be treated as valid.
10. Appointing a proxy shall not preclude a member from attending, speaking and voting in person at the meeting.
11. To appoint more than one proxy to vote on a poll in relation to different shares within your holding, you may photocopy this form. Please indicate on each copy of the form the proxy's name and number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the appointment of a proxy is one of multiple appointments being made. All such forms should be signed and returned in the same envelope.