

CHANNEL  

---

ISLANDS  

---

PROPERTY  

---

FUND

**REPORT & AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 OCTOBER 2012**

---

# CHANNEL ISLANDS PROPERTY FUND

---

## TABLE OF CONTENTS

For the year ended 31 October 2012

	Page
General Information	2
The Company	3
Chairman's Statement	4
Investment Manager's Report	5-6
Directors' Report	7-9
Auditors' Report	10-11
Consolidated Statement of Comprehensive Income	12
Consolidated Statement of Changes in Equity	13
Consolidated Statement of Financial Position	14
Consolidated Statement of Cash Flows	15
Notes to the Financial Statements	16-42
Notice of Annual General Meeting	43-44
Form of Proxy for Annual General Meeting	45-47

---

# CHANNEL ISLANDS PROPERTY FUND

---

## GENERAL INFORMATION

DIRECTORS:	Peter Tom, CBE Paul Bell Shelagh Mason
INVESTMENT MANAGER:	Cenkos Channel Islands Limited Level 5 The Market Buildings Fountain Street St. Peter Port 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

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **THE COMPANY**

Channel Islands Property Fund Limited (the “Company” and together with its subsidiaries the “Group”) 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. The ordinary shares of the Company were admitted to the Official List of the Channel Islands Stock Exchange on 17 November 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, investments, funds, companies owning property and financial indices which are property related including, but not limited to, property development.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **CHAIRMAN'S STATEMENT**

For the year ended 31 October 2012

The Board of the Channel Islands Property Fund Limited (the "Company" and together with its subsidiaries the "Group") is pleased to report that the unaudited reported Net Asset Value of the Company has increased by 4% over the year to 104p reported at 31<sup>st</sup> October 2012.

During the year the Company also moved to quarterly dividend payments and a target net annual dividend of 6p per share was met and payable to shareholders. Dividends of 4.5p per share have been paid during the year, with the final payment of 1.5p per share being made in November 2012. Also during the year a payment of 4p per share was made in relation to the period ended 31 October 2011.

The Channel Islands have unique property markets, which offer alternative and attractive investment opportunities. Our portfolio of property spans both Jersey and Guernsey and takes advantage of the Islands' favourable supply and demand characteristics, strong covenants and favourable lease terms.

Over the year outstanding rent reviews which were settled all resulted in rental uplifts, which accounts for the increase in the Company's income. This reflects rental trends in the prime commercial office sector.

The increase in the total value of the portfolio since the valuation in October last year reflects the stable and resilient nature of the Channel Islands economies in challenging global economic times.

We continue to maintain a cautious stance when reviewing all new investment opportunities. The protection of shareholder value is of utmost importance to us and all new investments must not only meet with the strict investment criteria of the Company but complement the current balance of the portfolio.

It remains our intention, whilst meeting all of our regulatory obligations, to facilitate the growth of the Company through the acquisition of further properties and exploration of all asset management opportunities, including the settlement of tenant rent reviews, which will be due on all properties in 2013.

**Peter Tom, CBE**

**20 December 2012**

---

# CHANNEL ISLANDS PROPERTY FUND

---

## INVESTMENT MANAGERS'S REPORT

**Unaudited Reported Net Asset Value as at 31 October 2012 is 104p (100p at 31<sup>st</sup> October 2011)  
Current Share Price Spread 99p - 103p**

The Manager is pleased to report that the Channel Islands Property Fund Limited (the "Company" and together with its subsidiaries the "Group" ) continues to perform in line with the objectives stated in the offering document.

As noted in the Interim Report and Accounts, the Company has increased the frequency of dividend payments from bi-annually to a quarterly basis. A final dividend in relation to the period ended 31 October 2011 of 4p per share was paid in November 2011. Interim net dividends of 1.5p each were paid to shareholders in February, May and September of this year. The payment of a further interim dividend of 1.5p was announced on 9<sup>th</sup> November 2012, and this was paid on 30<sup>th</sup> November 2012.

Shares in the Company continue to provide liquidity with 4.47m shares traded on the secondary market in the calendar year to 31 October 2012. Trading values have been consistent and at a marginal discount to the Net Asset Value.

The Channel Islands continue to display a general resilience to global economic volatility and commercial property prices have, in the main, remained broadly stable. There have however been few investment transactions across the islands' commercial office property market over the past year. Those which have traded have been non-prime assets in secondary or tertiary locations with short leases and as such pricing has remained above 7%. These do not compare directly with the Company's portfolio which is of superior quality in prime locations on relatively long leases.

Owners of properties have been reluctant to offer yielding assets for sale on the open market due to the lack of alternative investments available however we are aware that Ogier House, 44 Esplanade, St Helier is currently on the market. This prime property is contiguous with CIPF's 17 – 21 Seaton Place asset where the tenant, Ogier, occupies both buildings. We believe that further opportunities to acquire prime buildings across both islands will manifest themselves over the next 12 months.

Bank finance at sensible loan to value ratios continues to be available for this type of stock however borrowing margins have increased in line with the UK market, where the cost of capital is increasing as it becomes scarcer. This is partly offset by a reduction in the underlying five year swap rate which currently stands around 1.2%, resulting in broadly unchanged overall borrowing rates from those which the Company has in place across the portfolio.

Desktop valuations for each of the portfolio assets were undertaken at 31 October 2012. Regency Court has been valued at £37.95m, a reduction of 0.13% from the previous year. This value reflects a net initial yield of 6.75% on current rental income.

The next round of rent reviews for the tenants at Regency Court are due to commence in May 2013. We are confident in achieving an uplift in income on settlement of these reviews. Current evidence indicates that rents in Guernsey continue to move in an upwards direction, reflecting a firm occupational market.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **INVESTMENT MANAGERS'S REPORT (continued)**

Regency Court is one of the landmark office buildings in St Peter Port with a diverse and good quality tenant base. We will continue our approach of active asset management for the building over the next year, concentrating in particular on opportunities to increase the average term certain lease length.

The value of 17-21 Seaton Place, Ogier House in Jersey has increased by £450,000 to £11.75m at 31 October 2012. A notional but prudent rental uplift has been factored into the valuation as the Manager has now commenced the 2012 rent review process.

The acquisition value, plus acquisition costs, of Seaton Investments Limited, which was acquired on 9 December 2011 and which owns 11-15 Seaton Place, was £9.17m. The property valuation as at 31 October 2012 was £9.15m. This valuation however has been subject to an accounting adjustment in these financial statement by an amount equivalent to the remaining value of a rent free period within the existing lease. This property is also subject to a current rent review.

The occupational rental market in Jersey has shown more activity than in Guernsey, predominantly through the letting of 37 Esplanade and pre-let activity for the new Waterfront scheme. 37 Esplanade has set a benchmark for office rents in Jersey by achieving headline pre-let agreements at rents of £32.00 - £34.00 per sq. ft.

During the year, the Board of Directors appointed Peel Hunt LLP as brokers to the Company. Peel Hunt is an independent broking house with a focus on UK mid and small caps and has a highly experienced and respected real estate team.

We will work closely with Peel Hunt in our fundraising activities over the next 12 months and anticipate completing at least one acquisition in the first quarter of the next calendar year.

Our target remains to continue to provide a stable, sustainable and fully covered dividend to investors by ensuring that both current investments and new acquisitions comply with the investment criteria, distribution policy and regulatory requirements of the Group.

**Cenkos Channel Islands Limited**  
**20 December 2012**

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **DIRECTORS' REPORT**

For the year ended 31 October 2012

Channel Islands Property Fund Limited (the "Company" and together with its subsidiaries the "Group") 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 for the year ended 31 October 2012, 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 Company and of the profit or loss of the Company 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 Company will continue in business.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **DIRECTORS' REPORT (CONTINUED)**

For the year ended 31 October 2012

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)**

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 Company and to prevent and detect fraud and other irregularities.

### **CORPORATE GOVERNANCE**

The Board has undertaken a detailed review of the effectiveness of its corporate governance practices for the Company. In the context of the nature, scale and complexity of the Company the directors are satisfied with the level of their governance oversight for the Company and their degree of compliance with the Finance Sector Code of Corporate Governance issued by the Guernsey Financial Services Commission on 30th September 2011.

### **ACTIVITY**

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

### **DIVIDENDS**

Interim dividends of £393,375 (£0.015 per share) were paid on 29 February 2012, 31 May 2012, 28 September 2012 and 30 November 2012 in relation to the year ended 31 October 2012. In relation to the period ended 31 October 2011 a dividend of £869,000 (£0.04 per share) was paid on 30 November 2011.

### **DIRECTORS**

The Directors during the year and to the date of this report are as stated on page 2. During the year the Directors received remuneration in the form of fees as stated in note 20.

### **DIRECTORS INTERESTS**

At the year end, directors held the following shares in the Company:

Mr P. Tom, CBE – 500,000

Mr P. Bell – 675,000

Mrs S. Mason – Nil

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **DIRECTORS' REPORT (CONTINUED)**

For the year ended 31 October 2012

## **DIRECTORS INTERESTS (continued)**

At no point during the year did any of the Directors hold an interest in any material contract or contract for provision of services to which the Company, or any subsidiary undertaking, is a party and in which any director is or was materially interested.

## **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.

## **AUDITORS**

The Directors appointed KPMG Channel Islands Limited (the "auditor") as auditor of the Group on 26 January 2012. KPMG Channel Islands Limited have expressed their willingness to continue in office as auditor and a resolution to re-appoint them as auditors will be put to the members at the next Annual General Meeting.

Approved by the Board of Directors on 20 December 2012 and signed on its behalf by:

Peter Tom, CBE  
Director

Paul Bell  
Director

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **Independent auditor's report to the members of Channel Islands Property Fund Limited**

We have audited the Consolidated financial statements (the "financial statements") of Channel Islands Property Fund Limited (the "Group") for the year ended 31 October 2012 which comprise the Consolidated Statement of Financial Position, 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 pages 7 and 8, 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.

### **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 2012 and of its profit for the year then ended;
- are in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## **Independent auditor's report to the members of Channel Islands Property Fund Limited (continued)**

### **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,*  
Guernsey

20 December 2012

The maintenance and integrity of the electronic copy available on the Channel Islands Stock Exchange website is the responsibility of Legis Fund Services Limited; the work carried out by auditors does not involve consideration of these matters and accordingly, KPMG Channel Islands Limited accepts no responsibility for any changes that may have occurred to the financial statements or our audit report since 20 December 2012. KPMG Channel Islands Limited has carried out no procedures of any nature subsequent to 20 December 2012 which in any way extends this date.

# CHANNEL ISLANDS PROPERTY FUND

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2012

	Notes	1 November 2011 to 31 October 2012 £	25 August 2010 to 31 October 2011 £
<b>Income</b>			
Rental income	5	3,924,043	3,178,400
Service charge recharged to tenants	10	494,762	437,614
Other operating income	5	-	61,062
<b>Total operating income</b>		<u>4,418,805</u>	<u>3,677,076</u>
<b>Gains and losses on investments</b>			
Unrealised gain on revaluation of investment property	8	<u>254,499</u>	<u>1,169,274</u>
<b>Total gains on investments</b>		254,499	1,169,274
<b>Expenses</b>			
Service charge costs	10	(494,762)	(437,614)
Property operating expenses	10, 11	(42,783)	(10,861)
Management expenses	19, 20	(360,907)	(303,370)
Other operating expenses	13	<u>(274,869)</u>	<u>(423,313)</u>
<b>Total operating expenses</b>		<u>(1,173,321)</u>	<u>(1,175,158)</u>
<b>Profit before finance costs and tax</b>		3,499,983	3,671,192
<b>Financing</b>			
Interest income	5	559	1,090
Interest expense	6	<u>(1,614,179)</u>	<u>(1,533,911)</u>
<b>Total finance costs (net)</b>		<u>(1,613,620)</u>	<u>(1,532,821)</u>
<b>Profit before tax</b>		1,886,363	2,138,371
Taxation	7	-	(1,113)
Deferred tax	7	<u>79,837</u>	<u>53,863</u>
<b>Total taxation</b>		<u>79,837</u>	<u>52,750</u>
<b>Profit for the period</b>		<u>1,966,200</u>	<u>2,191,121</u>
<b>Other comprehensive income</b>			
Movement in fair value of interest rate swap	17	<u>(608,322)</u>	<u>(932,046)</u>
<b>Total comprehensive income</b>		<u><u>1,357,878</u></u>	<u><u>1,259,075</u></u>
Basic and diluted earnings per share	12	<u><u>0.08</u></u>	<u><u>0.10</u></u>

The results for the year / period relate to continuing operations.

The notes on pages 16 to 42 form an integral part of these consolidated financial statements.

# CHANNEL ISLANDS PROPERTY FUND

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2012

	Note	Share Capital £	Hedging Reserve £	Retained Earnings £	Total £
Balance at 25 August 2010		-	-	-	-
Profit for the period		-	-	2,191,121	2,191,121
Total other comprehensive income		-	(932,046)	-	(932,046)
<b>Total comprehensive income for the period</b>		-	(932,046)	2,191,121	1,259,075
Dividend paid	25	-	-	(651,750)	(651,750)
Amounts received on issue of shares	18	21,725,000	-	-	21,725,000
Issue costs		(651,750)	-	-	(651,750)
<b>Balance at 31 October 2011</b>		21,073,250	(932,046)	1,539,371	21,680,575
Profit for the year		-	-	1,966,200	1,966,200
Total other comprehensive income		-	(608,322)	-	(608,322)
<b>Total comprehensive income for the year</b>		21,073,250	(1,540,368)	3,505,571	23,038,453
Dividend paid	25	-	-	(2,049,125)	(2,049,125)
Amounts received on issue of shares	18	4,500,000	-	-	4,500,000
Issue costs		(135,000)	-	-	(135,000)
<b>Balance at 31 October 2012</b>		25,438,250	(1,540,368)	1,456,446	25,354,328

The notes on pages 16 to 42 form an integral part of these consolidated financial statements.

# CHANNEL ISLANDS PROPERTY FUND

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 October 2012

	Note	31 October 2012 £	31 October 2011 £
<b>Assets</b>			
Investment properties	8	58,485,257	49,300,000
<b>Non-current assets</b>		<u>58,485,257</u>	<u>49,300,000</u>
Trade and other receivables	14	24,778	61,052
Receivable on rental incentives	8	364,743	-
Cash and cash equivalents		1,453,910	1,666,873
<b>Current assets</b>		<u>1,843,431</u>	<u>1,727,925</u>
<b>Total assets</b>		<u><u>60,328,688</u></u>	<u><u>51,027,925</u></u>
<b>Equity</b>			
Share capital	18	25,438,250	21,073,250
Reserves	18	(1,540,368)	(932,046)
Retained earnings		1,456,446	1,539,371
<b>Total equity</b>		<u><u>25,354,328</u></u>	<u><u>21,680,575</u></u>
<b>Liabilities</b>			
Loans and borrowings	16	32,336,967	27,444,850
Interest rate swap	17	1,540,368	932,046
Deferred tax	7	156,152	171,951
<b>Non-current liabilities</b>		<u>34,033,487</u>	<u>28,548,847</u>
Other payables	15	915,873	798,503
Provisions	11	25,000	-
<b>Current liabilities</b>		<u>940,873</u>	<u>798,503</u>
<b>Total liabilities</b>		<u><u>34,974,360</u></u>	<u><u>29,347,350</u></u>
<b>Total equity and liabilities</b>		<u><u>60,328,688</u></u>	<u><u>51,027,925</u></u>
Net asset value per Share	24	0.97	1.00

The consolidated financial statements on pages 12 to 42 were approved by the Board of Directors on 20 December 2012 and are signed on its behalf by:

Peter Tom, CBE  
Director

Paul Bell  
Director

The notes on pages 16 to 42 form an integral part of these consolidated financial statements.

# CHANNEL ISLANDS PROPERTY FUND

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 October 2012

		<b>1 November 2011 to 31 October 2012</b>	<b>25 August 2010 to 31 October 2011</b>
	<b>Note</b>	<b>£</b>	<b>£</b>
<b>Reconciliation of Total Return to Net Cashflow</b>			
<b>Operating activities</b>			
Profit before tax		1,886,363	2,138,371
Adjusted for:			
Interest income		(559)	(1,090)
Interest expense		1,614,179	1,533,911
Interest received		559	1,090
Interest paid		(1,375,474)	(1,261,928)
Unrealised gain on investment properties	8	(254,499)	(1,169,274)
Increase in trade and other receivables		(328,469)	(61,052)
Deferred tax resulting from acquisition		64,038	53,863
Increase in other payables		85,371	867,645
Increase in provisions		25,000	-
Taxation paid		(1,113)	-
<b>Net cash inflow from operating activities</b>		<u>1,715,396</u>	<u>2,101,536</u>
<b>Investment Activities</b>			
Property acquisition	8	<u>(8,930,758)</u>	<u>(48,130,726)</u>
<b>Net cash outflow from investment activities</b>		<u>(8,930,758)</u>	<u>(48,130,726)</u>
<b>Financing Activities</b>			
Net proceeds from issue of Ordinary Shares	18	4,365,000	21,073,250
Net loans received	16	4,886,524	27,274,563
Loan repayments	16	(200,000)	-
Dividends paid	25	<u>(2,049,125)</u>	<u>(651,750)</u>
<b>Net cash inflow from financing activities</b>		<u>7,002,399</u>	<u>47,696,063</u>
<b>NET CASH (OUTFLOW)/INFLOW FOR THE YEAR / PERIOD</b>		(212,963)	1,666,873
<b>CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR / PERIOD</b>		1,666,873	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR / PERIOD</b>		<u>1,453,910</u>	<u>1,666,873</u>

The notes on pages 16 to 42 form an integral part of these consolidated financial statements.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 1 REPORTING ENTITY

Channel Islands Property Fund Limited (the “Company” and together with its subsidiaries the “Group”) was registered on 25 August 2010 and registered on 26 October 2010 as an Authorised closed-ended investment company 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 year ended 31 October 2012 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”), as adopted by IASB, and comply with the Companies (Guernsey) Law, 2008.

The consolidated financial statements have been prepared on a going concern basis.

The accounting policies adopted in the year are consistent with those of the previous financial period with the exception of standards adopted during the year. In the current year, the Group 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, that are relevant to its operations and effective for annual reporting periods beginning on or after 1 November 2011. The only relevant standard adopted during the year was:

- IAS 24: Related party disclosures - for accounting periods commencing on or after 1 January 2011

#### *New IFRS accounting standards and interpretations not yet adopted*

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

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 2 PRINCIPAL ACCOUNTING POLICIES (continued)

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

- IFRS 9: Financial Instruments - Classification and Measurement - for accounting periods on or after 1 January 2015. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.
- IFRS 10: Consolidated Financial Statement - replaces the consolidation guidance in IAS 27 - for accounting periods on or after 1 January 2013. Under IFRS 10 there is only one basis for consolidation and that basis is control. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 12: Disclosure of Interest in Other Entities - requires enhanced disclosure for related parties (consolidated and unconsolidated entities) - for accounting periods on or after 1 January 2013. IFRS 12 Establishes disclosure objectives and specifies the minimum disclosure that entities must provide to meet those objectives.
- IFRS 13: Fair value measurement - for accounting periods on or after 1 January 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.
- Amendment to IAS 1: Presentation of Financial Statements - amends the presentation of items of other comprehensive income. This amendment is effective for accounting periods commencing on or after 1 July 2012. The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into 2 categories, a) items that will not be reclassified subsequently to profit and loss; b) items that may be reclassified subsequently to profit and loss where specific conditions are met.

These standards and interpretations will be adopted when they become effective. The Directors anticipate that, with the exceptions of IFRS 9 and IFRS 13, 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 are considering, but have not yet concluded, on what the impact of IFRS 9 will be on the Group's Consolidated Statement of Financial Position but do not anticipate adopting the standard until the period commencing November 2015. IFRS 13 introduces significant additional disclosures for fair values of non financial assets and liabilities, however as the standard aims to reduce complexity the Directors consider that any significant changes will be presentational only.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 2 PRINCIPAL ACCOUNTING POLICIES (continued)

#### ***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 during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition. 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.

#### ***Income and expenses***

Income and expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis. All of the Group's income and expenses are derived from continuing operations. Rental income and lease incentives from investment property leased out is recognised in the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease. 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.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 2 PRINCIPAL ACCOUNTING POLICIES (continued)

#### *Income and expenses (continued)*

The income charged to tenants for property service charges and the costs associated with such service charges are shown separately in the Consolidated Statement of Comprehensive Income to reflect that the ultimate risk for paying and recovering these costs rests with the property owner.

Interest income is generated from cash and cash equivalents. Interest income is recognised on an accruals basis.

Interest expense comprise interest expense on loans and borrowings, including the effective portion of interest rate swaps. Attributable transaction costs incurred in establishing the Group's credit facilities are deducted from the fair value of borrowings on initial recognition and are amortised over the lifetime of the facilities through Consolidated Statement of Comprehensive Income. Interest expenses are accounted for on an effective interest basis.

#### *Formation expenses*

The placing fee has been set off against capital raised. All other formation expenses are taken to the Consolidated Statement of Comprehensive Income in full in the year in which they are incurred.

#### *Investment property*

Properties which are held for the long term, to earn rentals and / or for capital appreciation are accounted for under IAS 40: Investment Property. Such properties are initially stated at cost, including any related transaction costs. After initial recognition, investment properties are carried at their fair value based on professional valuations. The professional valuation of the investment property is largely based on estimates using property appraisal techniques and other valuation methods. Such estimates, further disclosed in note 3, are inherently subjective and actual values can only be determined in a sales transaction.

Gains or losses arising from changes in the fair value of investment properties are included in the Consolidated statement of comprehensive income in the period in which they arise.

#### **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 assets and financial liabilities*

Financial assets and financial liabilities comprise trade and other receivables, cash and cash equivalents and other payables. These are recognised initially at fair value plus any directly attributable transaction costs. 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.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 2 PRINCIPAL ACCOUNTING POLICIES (continued)

#### ***Financial assets and financial liabilities (continued)***

The Group classifies financial assets and financial liabilities into the following categories:

Financial assets at amortised cost - Loans issued and receivables. This incorporates cash and cash equivalents and all trade receivables.

Financial Liabilities at amortised cost - Other liabilities. This incorporates trade and other payables.

The amortised cost of a financial asset or liability is the amount at which the financial assets or liability is measured at initial recognition adjusted for any impairment.

The group derecognises a financial asset when it no longer bears the risk, nor is entitled to the rewards, of ownership. On derecognition the difference between the carrying amount of the asset and the consideration received is recognised in the Statement of Comprehensive Income.

The group derecognises a financial liability when its contractual obligations are discharged or expire.

#### ***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. Set up costs associated with any borrowings are capitalised and charged to the Statement of Comprehensive Income over the period of the borrowings.

#### ***Distributions***

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

#### ***Operating leases***

The Group leases out investment properties on operating leases.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### *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 or Jersey 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 it is likely that they will remain for 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.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### **Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### Valuation of property

In accordance with the accounting standard adopted by the Group's, 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. The standards dictate that this be determined by independent valuation experts using recognised valuation techniques.

As at the year end the valuation of all properties have been prepared by Montagu Evans LLP, London, in accordance with the Royal Institute of Chartered Surveyors ("RICS") Appraisal and Valuation Standards, seventh edition. At the prior period end Montagu Evans Channel Islands Limited prepared the valuation for Regency Court and the valuation of Seaton Place was prepared by CB Richard Ellis Limited. In order to ensure a consistent valuation basis across the Group it was deemed beneficial to appoint one valuation agent and as such Montagu Evans Channel Islands Limited and CB Richard Ellis Limited were replaced by Montagu Evans LLP, London.

The fair value of investment property is based on valuations provided as described above. These values are determined by using recognised valuation techniques and taking into consideration any recent market transactions for similar properties in similar locations to the investment properties held by the Group and the anticipated future cash flows from rental income that the properties are expected to generate. Initial yield of between 6.68% and 7.25% on the estimated rental value of each property has been used in arriving at the valuation of property. This yield has been arrived at using comparable evidence, where available, and taking account of the nature of the individual investments including the occupational tenants, income stream and lease lengths.

Full valuations are prepared on acquisition and then again every three years, with desktop valuations performed annually.

#### Fair value of derivatives

During the year and at the year end the fair value of derivatives, interest rate swaps being the only derivatives held, is based on valuation models run by the counterparty to the contracts, HSBC Bank plc. The object of the valuation model is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The valuation models used for interest rate swaps are widely recognised as using only observable market data. As such they significantly reduce the level of management judgement and estimation required.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### Functional currency

The Directors 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 from its investors. This determination also considers the competitive environment in which the Group is compared to other Channel Island property investment products.

#### Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The number of items of land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes, including provision of all relevant administration and information to the entity's owners

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities.

The Board have considered the nature and activities of the subsidiaries acquired and have concluded that they do not represent the acquisition of a business and as such the cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

### 4. SEGMENTAL INFORMATION

The Board is charged with setting the Company's investment strategy in accordance with the Company's investment policy and overall objectives. They have delegated the day to day implementation of this strategy to the Investment Manager but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The operating activities of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board.

The Investment Manager has been given full authority to act on behalf of the Company in certain situations. Under the terms of the Investment Management Agreement, subject to the overall supervision of the Board, the Investment Manager advises on the investment strategy of the Company, advises the Company on its borrowing policy and advises on the use of, and management of, derivatives and hedging by the Company.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 4. SEGMENTAL INFORMATION (continued)

Whilst the Investment Manager may make operational decisions on a day to day basis regarding the property investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager.

The Board therefore retains full responsibility for investment policy and strategy. The Investment Manager will always act under the terms of the Investment Management Agreement which cannot be changed without the approval of the Board. The Board has considered the requirements of IFRS 8 "Operating Segments". The Board is of the opinion that 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

	<b>1 November 2011 to 31 October 2012 £</b>	<b>25 August 2010 to 31 October 2011 £</b>
Bank deposit interest	559	1,090
Rental income	3,924,043	3,178,400
Other income	-	61,062
	<u>3,924,602</u>	<u>3,240,552</u>

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.

Other income in the period ended 31 October 2011 of £50,000 comprises of an amount received to grant access rights to a neighbouring property over part of the Regency Court premises.

### 6. INTEREST EXPENSE

	<b>1 November 2011 to 31 October 2012 £</b>	<b>25 August 2010 to 31 October 2011 £</b>
Cornerstone Titan 2006-1 Plc	-	272,943
HSBC Bank Plc – Interest payable at amortised cost	1,614,179	1,260,968
	<u>1,614,179</u>	<u>1,533,911</u>

The payments to HSBC Bank Plc. are in relation to the interest charged on the Facility Agreement and Swap Agreement for the period (see note 17 and note 18).

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 6. INTEREST EXPENSE (continued)

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.

### 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. For the current year no tax is payable in relation to rental income received (2011: Nil).

Seaton Place Property Limited and Seaton Investments Limited are subject to Jersey income tax on rental income arising after the deduction of allowable debt financing costs and allowable expenses. For the current year no tax is payable (31 October 2011: £1,113) in relation to rental income received.

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:

	<b>31 October 2012</b>	<b>31 October 2011</b>
	£	£
Accelerated capital allowances and unutilised management expense	156,152	171,951
	<u>156,152</u>	<u>171,951</u>

The movement in the deferred tax balance is as follows:

	<b>1 November 2011 to 31 October 2012</b>	<b>25 August 2010 to 31 October 2011</b>
	£	£
At the beginning of the year / period	171,951	-
Deferred tax on acquisition of subsidiary	64,038	225,814
Charged to the Consolidated Statement of Comprehensive Income	(79,837)	(53,863)
At end of year / period – liability	<u>156,152</u>	<u>171,951</u>

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 7. TAXATION (continued)

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).

#### Reconciliation of accounting profit to tax expense

	31 October 2012	31 October 2011
	£	£
Tax Expense in the year / period	-	(1,113)
Reconciliation of effective tax rate		
Profit before tax	<u>1,886,363</u>	<u>2,138,371</u>
Income tax using 20% rate on rental income	377,273	427,674
Revaluation gain not taxable	(50,900)	(233,855)
Accelerated capital allowances	15,799	(171,951)
Other tax deductible expenses	(342,172)	(20,755)
Current tax expense in the year / period	<u>-</u>	<u>(1,113)</u>

### 8. INVESTMENT PROPERTIES

	31 October 2012	31 October 2011
	£	£
Fair value at beginning of year / period	49,300,000	-
Additions at cost	8,930,758	48,130,726
Unrealised gain on revaluation	<u>254,499</u>	<u>1,169,274</u>
Fair value at end of year / period	<u><u>58,485,257</u></u>	<u><u>49,300,000</u></u>

The carrying value of investment properties reconciles to the Appraised Value as follows:

	31 October 2012	31 October 2011
	£	£
Appraised value	58,850,000	49,300,000
Lease incentives held as debtors	<u>(364,743)</u>	<u>-</u>
Carrying value at the end of the year / period	<u><u>58,485,257</u></u>	<u><u>49,300,000</u></u>

The investment portfolio, in line with the investment strategy detailed on page 3, consists only from commercial property in the Channel Islands. During the year two new subsidiaries joined the Group, Seaton 2 Limited and Seaton Investments Limited. 100% of the share capital of Seaton 2 Limited, an investment holding company, was acquired on its set up on 9 November 2011, which in turn acquired 100% of the share capital in Seaton Investments Limited, a property investment company, on 9 December 2011.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 8. INVESTMENT PROPERTY (continued)

When the Group acquired Seaton Investment Limited, as disclosed below, a lease incentive in the form of a rent free period had already been granted by the previous owner to the existing tenant. The value of this lease incentive is being written off over the period of the lease. The property valuation has incorporated the future cash flows of the lease in arriving at the market value and as such an accounting adjustment, being an adjustment to the value of the investment property, has to be made to take into consideration the lease incentive.

All investment properties were valued on 31 October 2012 by Montagu Evans LLP, London, who is a member of the Royal Institute of Chartered Surveyors. On 31 October 2011 the Regency Court investment property was valued by Montagu Evans Channel Islands Limited and the 17-21 Seaton Place investment property was valued by CB Richard Ellis Limited. 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, Seaton Place Property Limited and Seaton Investments Limited are subject to security agreements in favour of HSBC Bank Plc in respect of loans advanced by HSBC Bank Plc to Regency 1 Limited, Seaton 1 Limited and Seaton 2 Limited. The obligations of Seaton 1 Limited, Seaton Place Property Limited, Regency 1 Limited and 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, 11-15 Seaton Place, Jersey and 17-21 Seaton Place, Jersey are also subject to individual bonds in favour of HSBC Bank Plc. Further details are provided in note 16.

### 9. OPERATING LEASES

Future minimum lease rentals are as follows:

	<b>31 October 2012</b>	<b>31 October 2011</b>
	£	£
Within 1 Year	4,051,248	3,370,753
1 to 5 Years	16,292,190	13,557,676
After 5 Years	<u>37,048,517</u>	<u>36,162,367</u>
Total	<u>57,391,955</u>	<u>53,090,796</u>

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 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 being due in 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 being due in May 2013.

##### *11-15 Seaton Place*

The tenancy agreement is a 25 year agreement generating £169,036 per quarter\* ending March 2024. The next rent review was due March 2012.

##### *17-21 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 year.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 10. PROPERTY OPERATING EXPENSES

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

#### Income generating expenses

	1 November 2011 to 31 October 2012 £	25 August 2010 to 31 October 2011 £
Agents fees	42,783	10,861

There were no property operating expenses that would not generate rental income (2011 : Nil).

#### 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 year to 31 October 2012 an amount of £494,762 (period ended 31 October 2011: £437,614) had been incurred in relation to these services.

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

### 11. PROVISION

	01 November 2011 to 31 October 2012 £
Opening balance	-
Additions	25,000
Closing balance	25,000

As at 31 October 2012 the Group has provided a sum of £25,000 for service charge invoices that have been received and may be required to be borne by Seaton Investments Limited. This has arisen as a result of certain pre let agreements. The Group's lawyers are currently investigating whether these invoices are applicable, and if so to what extent these expenses will be split between Seaton Investments Limited and the former owners of the property.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 12. BASIC AND DILLUTED EARNINGS PER SHARE

The basic and diluted earnings per share for the Group is based on the net profit for the year of £1,966,200 and the weighted average number of Ordinary Shares in issue during the year of 25,745,492. In the Consolidated financial statements for 2011 the basic and diluted earnings per share was based on Total Comprehensive income of £1,259,075 and weighted average number of shares of 21,725,000, giving an earnings per share of £0.06. The earnings per share calculation should have been based on the net profit for the period. The profit for the period was £2,191,121 resulting in an amended earnings per share figure of £0.10, as shown in the Consolidated Statement of Comprehensive Income.

### 13. OTHER OPERATING EXPENSES

Other operating expenses are made up as follows:

	<b>1 November 2011 to 31 October 2012</b>	<b>25 August 2010 to 31 October 2011</b>
	£	£
Administration fees	82,908	46,875
Insurance	9,997	17,419
Audit fees (see also note 21)	25,893	21,855
Legal and professional fees	65,629	102,405
Regulatory fees	10,881	-
Directors fees and expenses	70,000	59,315
Marketing expenses	4,167	10,290
Formation costs	-	155,311
Sundry expenses	5,394	9,843
	<u>274,869</u>	<u>423,313</u>

### 14. TRADE AND OTHER RECEIVABLES

	<b>31 October 2012</b>	<b>31 October 2011</b>
	£	£
Accrued income	-	55,500
Sundry debtors	10,980	4,598
Prepayments	13,798	1,454
	<u>24,778</u>	<u>61,052</u>

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 15. OTHER PAYABLES

	31 October 2012	31 October 2011
	£	£
Administration fees	20,000	12,148
Rent received in advance	622,417	534,503
Audit fees	15,500	19,000
Investment manager fees	90,554	76,703
Rent review fees	20,000	45,000
Other creditors	12,594	9,453
Loan interest payable – HSBC	134,808	101,696
	<u>915,873</u>	<u>798,503</u>

### 16. LOANS AND BORROWINGS

	31 October 2012	31 October 2011
	£	£
HSBC Bank Plc:		
Net loan liability at beginning of year / period	27,444,850	-
Loan principal drawdown	5,000,000	28,200,000
Loan principal repaid	(200,000)	-
Set up costs	(113,476)	(925,437)
Amortisation of set up costs	205,593	170,287
	<u>32,336,967</u>	<u>27,444,850</u>
Net loan liability at end of year / period		

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 70% for each of Regency 1, Seaton 1 and Seaton 2 facilities. The actual loan to value ratios at 31 October 2012 are 55% for Regency 1 (2011: 55%), 62% for Seaton 1 (2011: 64%) and 55% for Seaton 2 (2011: N/A).

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, the Seaton 1 loan facility is repayable on 24 December 2015 and the Seaton 2 loan facility is repayable on 8 December 2016. All set up costs related to each of these loans are amortised evenly over the period from drawdown to maturity.

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. The interest rate swap is due to expire on 2 December 2015.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 16. LOANS AND BORROWINGS (continued)

The Group hedges the Seaton 1 loan for interest rate risk via a £6,500,000 interest rate swap with HSBC Bank Plc. fixed at 2.25% per annum and a further £500,000 interest rate swap with HSBC Bank Plc. fixed at 1.72% per annum. Both interest rate swaps are due to expire on 7 January 2016.

The Group hedges the Seaton 2 loan for interest rate risk via a £5,000,000 interest rate swap with HSBC Bank Plc fixed at 1.7% per annum. The interest rate swap is due to expire on 9 December 2016.

### 17. INTEREST RATE SWAP

#### Derivatives primarily held for risk management purposes

Interest rate swaps	Liabilities	Notional Amount
HSBC Bank Plc:	£	£
Net swap liability at beginning of period	-	-
Swap contracts entered	-	27,500,000
Unrealised loss on revaluation	(932,046)	-
<b>As at 31 October 2011</b>	<b>(932,046)</b>	<b>27,500,000</b>
Net swap liability at beginning of year	(932,046)	27,500,000
Swap contracts entered	-	5,500,000
Unrealised loss on revaluation	(608,322)	-
<b>As at 31 October 2012</b>	<b>(1,540,368)</b>	<b>33,000,000</b>

Interest on the swaps is receivable at a variable rate calculated on the same LIBOR basis as for the bank loan (as detailed in note 16) and payable quarterly.

The fair value of the liability in respect of the interest rate swap contracts at 31 October, 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.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 18. SHARE CAPITAL AND RESERVES

#### Authorised

The Company has an unlimited number of Ordinary shares of no par value.

#### Issue and Fully Paid

	No. of shares	£
<b>Ordinary Shares</b>		
Balance at 25 August 2010	-	-
Issued during the period	21,725,000	21,725,000
Issue costs		(651,750)
<b>Balance at 31 October 2011</b>	<b>21,725,000</b>	<b>21,073,250</b>
Issued during the year	4,500,000	4,500,000
Issue costs		(135,000)
<b>Balance at 31 October 2012</b>	<b>26,225,000</b>	<b>25,438,250</b>

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

	1 November 2011 to 31 October 2012	25 August 2010 to 31 October 2011
	£	£
Balance at start of year / period	(932,046)	-
Movement during the year / period	(608,332)	(932,046)
Balance at end of year / period	<b>(1,540,638)</b>	<b>(932,046)</b>

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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 19. MATERIAL AGREEMENTS

#### **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. No amounts are outstanding at year end (31 October 2011: £Nil)

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 11-15 Seaton Place. As this property is single-let, the full amount is payable by the Group. No amounts are outstanding at year end (31 October 2011: £Nil)

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. No amounts are outstanding at year end (31 October 2011: £Nil)

#### **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 investments the annual fee is £60,000 per annum. Once the Company holds more than three investments, the Administrator will receive an additional administration fee, payable quarterly in arrears of £12,000 per annum per additional investment group.

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

The administrator is also entitled to receive an accounting fee of £1,250 for the preparation of the annual financial statement of the Company's subsidiaries Regency 1 Limited, Seaton 1 Limited and Seaton 2 Limited.

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

Total fees charged by the Administrator during the year were £82,908 (period ended 31 October 2011: £46,875), of which £20,000 remained unpaid at 31 October 2012 (31 October 2011: £12,148).

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 20. RELATED PARTY TRANSACTIONS

#### Fees payable to the Investment Manager

##### *Management fee*

Pursuant to the Investment Management Agreement, the Company pays 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 year were £360,907 (period ended 31 October 2011: £303,370), of which £90,554 remains unpaid at year end (31 October 2011: £76,703) .

##### *Acquisition fee*

Pursuant to the Investment Management Agreement the Company pays 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 year, fees of £133,500 were paid in relation to the acquisition of 11-15 Seaton Place. These have been capitalised as part of the property acquisition costs. No acquisition fees were outstanding at the year end (2011: Fees of £533,423 and £166,500 were paid in relation to the acquisition of Regency Court and Seaton Place respectively. No fees were outstanding at period end).

##### *Performance fee*

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

The performance fee is 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.

There is no performance fee payable for the current year (period ended 31 October 2011: £Nil).

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 20. RELATED PARTY TRANSACTIONS (continued)

#### *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 subject to annual review by the Board of Directors. Additional directors fees of £20,000 were paid during the year as a result of the additional workload involved in the acquisition of the second Seaton Place property.

Of the additional £20,000 directors fees £10,000 was paid to Shelagh Mason and £5,000 paid to both Peter Tom and Paul Bell. As at year end there were no directors fees outstanding (2011 : £Nil)

Mr. Peter Tom is a Shareholder of the Investment Manager, Cenkos Channel Islands Limited and holds 200,000 shares indirectly.

Mr. Paul Bell is a Shareholder of the Investment Manager, Cenkos Channel Islands Limited and holds 200,000 shares.

Mr Jon Ravenscroft, the Chief Executive Officer of the Investment Manager, holds 250,000 shares in the Company indirectly.

Mrs Tara Hutcheon, an employee of the Investment Manager, holds 50,000 shares in the Company indirectly.

### 21. AUDITOR'S REMUNERATION

The audit fee for the reporting year is £25,000 (period ended 31 October 2011 : £19,000).

KPMG Channel Islands Limited were also engaged to provide tax advice to the Group and received fees of £11,650 for their services.

### 22. 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 properties 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.

---

# CHANNEL ISLANDS PROPERTY FUND

---

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 22. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

#### Market price risk (continued)

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 properties 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.

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 2012, if market prices for properties had moved by 5% with other variables remaining constant, the change in net assets attributable to shareholders for the year would amount to approximately, +/- £2,942,500 (31 October 2011: £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.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 22. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

#### Liquidity risk (continued)

The table below analyses the Group's financial assets and 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. The fair value of 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
	£	£	£
<b>31-Oct-12</b>			
Cash and cash equivalents	1,453,910	-	-
Trade receivables	389,521	-	-
Other payables and provisions	(940,873)	-	-
Borrowings	(877,862)	(34,967,878)	-
Interest rate swaps used for hedging	(536,175)	(1,190,898)	-
	£	£	£
<b>31-Oct-11</b>			
Cash and cash equivalents	1,666,873	-	-
Trade receivables	61,052	-	-
Other payables	(798,503)	-	-
Borrowings	(833,027)	(30,773,180)	-
Interest rate swaps used for hedging	(389,602)	(1,213,161)	-

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

#### 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 a reputable institution. HSBC Bank Plc has a Fitch rating of AA and a Moody's rating of Aa2.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 22. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

#### Credit risk (continued)

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:

	<b>31 October 2012 £</b>	<b>31 October 2011 £</b>
Trade and other receivables	389,521	61,052
Cash and cash equivalents	1,453,910	1,666,873
	<u>1,843,431</u>	<u>1,727,925</u>

#### 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 principal 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.

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

	<b>Variable rate financial assets £</b>	<b>Variable rate financial liabilities £</b>	<b>Fixed rate financial liabilities £</b>
At 31 October 2012	<u>1,453,910</u>	-	(33,000,000)

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 22. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

#### Interest rate risk (continued)

	Variable rate financial assets £	Variable rate financial liabilities £	Fixed rate financial liabilities £
At 31 October 2011	1,666,873	(700,000)	(27,500,000)

At 31 October 2012, if interest rates had moved by 5% with other variables remaining constant, the change in net assets attributable to shareholders for the year would amount to approximately +/- £73,000 (Period ended 31 October 2011 : +/- £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. For 31 October 2011 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. As at 31 October 2012 all of the amount outstanding to HSBC (2011: £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. As at 31 October 2011 £700,000 was not subject to an interest rate swap and as such was subject to interest at a variable rate.

#### Fair values

The Board considers that the fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The following summarises the main methods and assumptions used in estimating the fair values of financial instruments.

#### Derivatives

The fair value for the interest rate swap is provided by HSBC Bank plc, the counterparty to the deal, using a valuation model. In the fair value hierarchy the interest rate swap is level 2 as the inputs to the valuation model are observable.

The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 22. FINANCIAL RISK MANAGEMENT AND TREASURY POLICIES (continued)

#### Fair values (continued)

##### *Interest bearing loans and borrowings*

Fair values are based on the amounts which are to be repaid, less any costs incurred in obtaining the borrowings. These costs are then amortised over the period of the borrowings.

##### *Trade and other receivables/payables*

All trade receivables and trade payables are deemed to be due within one year and as such the carrying amount is considered to reflect the fair value.

#### Capital risk management

The Board's policy is to maintain a strong capital base so as to ensure that entities within the Group will be able to continue as going concerns while maintaining investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the year.

The capital structure consists of net debt, being borrowings as disclosed in notes 16 and 17 offset by cash and cash equivalents, and equity of the Group, being issued capital, reserves and retained earnings.

The Group is not exposed to any externally imposed capital requirements.

### 23. INVESTMENT IN SUBSIDIARIES

Subsidiary	Date of incorporation / acquisition	Domicile	Ownership
Regency 1 Limited	21 September 2010	Guernsey	100%
Seaton 1 Limited	01 December 2010	Guernsey	100%
Seaton 2 Limited	09 November 2011	Guernsey	100%
Regency Court Property Limited	30 November 2010	Guernsey	100%
Seaton Place Property Limited	01 December 2010	Jersey	100%
Seaton Investments Limited	09 December 2011	Jersey	100%

Regency 1 Limited owns 100% of the issued share capital of Regency Court Property Limited.

Seaton 1 Limited owns 100% of the issued share capital of Seaton Place Property Limited.

Seaton 2 Limited owns 100% of the issued share capital of Seaton Investments Limited.

All companies were setup to acquire properties.

# CHANNEL ISLANDS PROPERTY FUND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2012

### 24. NET ASSET VALUE PER SHARE

	31 October 2012	31 October 2011
	£	£
Net asset value attributable to Ordinary Shares per consolidated financial statements	25,354,328	21,680,575
Adjustments		
Interest rate swap at fair value	1,540,368	932,046
Formation expenses	87,474	118,587
Capitalisation of loan set up costs	-	(755,150)
Lease incentive adjustment (note 8)	364,743	-
Adjustments to accruals	29,756	(162,582)
<b>Net asset value per valuation report</b>	<b>27,376,669</b>	<b>21,813,476</b>
Shares in issue	26,225,000	21,725,000
Reported Net Assets per share	1.0439	1.0041
Audited Net Assets per share	0.9668	0.9980

### 25. DIVIDENDS

During the year dividends totalling 8.5 pence per share have been paid (period ended 31 October 2011 : 3 pence per share) to ordinary shareholders, with a further dividend of 1.5 pence per share paid post year end on 30 November 2012.

As a condition of the loan facility agreement with HSBC Bank Plc, Regency 1 Limited, Seaton 1 Limited and Seaton 2 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.

### 26. EVENTS AFTER REPORTING DATE

An interim dividend of £393,375 (£0.015 per share) was declared on 9 November and was paid on 30 November.

### 27. 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 Second 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 24 January 2013 at 11 a.m. to transact the business set out in the following Resolutions.

All resolutions will be passed as ordinary resolutions:-

### ORDINARY RESOLUTIONS:

1. To approve the Report and Audited Financial Statements for the year ended 31 October 2012.
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. Mr Paul Bell, being eligible and having offered himself for re-election, to be re-elected as a Director of the Company.
5. Pursuant to Article 27.1 of the Articles of Incorporation of the Company, to approve that the ordinary remuneration of the directors who do not hold executive office for their services (excluding amounts payable under any other sub-paragraph of the Articles) be changed such that their remuneration shall not exceed in the maximum aggregate £100,000 per annum.
6. 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 third 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

20 December 2012

---

# 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 Second Annual General Meeting of**  
**Channel Islands Property Fund Limited (the “Company”)**  
**to be held on Thursday 24 January 2013 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 second Annual General Meeting of the Company to be held on Thursday 24 January 2013 at 11 a.m and at any adjournment thereof.

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.

<b>Ordinary Resolutions</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
1. Approve the Report and Audited Financial Statements for the year ended 31 October 2012.	( )	( )	( )
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 Paul Bell as a Director of the Company	( )	( )	( )
5. Pursuant to Article 27.1 of the Articles of Incorporation of the Company, to approve that the ordinary remuneration of the directors who do not hold executive office for their services (excluding amounts payable under any other sub-paragraph of the Articles) be changed such that their remuneration shall not exceed in the maximum aggregate £100,000 per annum.	( )	( )	( )

# CHANNEL ISLANDS PROPERTY FUND

<p>6. 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:</p> <ul style="list-style-type: none"> <li>a. The maximum number of shares authorised to be purchased shall be 14.99% of the shares in issue;</li> <li>b. The minimum price which may be paid for any share in issue shall be £0.01;</li> <li>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;</li> <li>d. The authority shall expire at the conclusion of the third 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</li> <li>e. The purchase price may be paid by the Company to the fullest extent permitted by the Law.</li> </ul>	( )	( )	( )
---	-----	-----	-----

Date..... Signature.....

Number of Shares.....

---

# CHANNEL ISLANDS PROPERTY FUND

---

## 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.