

Arrow Primary Infrastructure Fund

ARSN 110813851

**Interim report - for the half-year ended
31 December 2013**

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Interim report - 31 December 2013

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These financial statements cover Arrow Primary Infrastructure Fund, formerly called Arena Primary Infrastructure Fund (the "Fund"). The financial statements are presented in Australian currency.

On 2 September 2013, Arena Investment Management Limited (ACN 077 235 879) resigned as the Responsible Entity of the Fund and Arrow Funds Management Limited (ACN 146 671 276) was appointed in its place.

The registered office of Arena Investment Management Limited is at 71 Flinders Lane, Melbourne VIC 3000.

The registered office of Arrow Funds Management Limited is at Level 25, 360 Collins Street, Melbourne VIC 3000.

Directors' report

The directors of Arrow Funds Management Limited, the Responsible Entity of Arrow Primary Infrastructure Fund (the "Fund"), present their report together with the financial statements of the Fund for the half-year ended 31 December 2013.

Directors

The following persons held office as directors of Arena Investment Management Limited during the period that it was Responsible Entity of the Fund (1 July 2013 to 2 September 2013):

Bryce Mitchelson
James Goodwin
Dennis Wildenburg
Simon Parsons
David Ross

The following persons held office as directors of Arrow Funds Management Limited during the period it has been Responsible Entity of the Fund and up to the date of this report:

Andrew Ashbolt
Matthew Reid
Murray Jones

Principal activities

The Fund is an open ended unlisted property fund with investment in geographically diverse property and infrastructure assets used in the primary production industry.

There were no significant changes in the nature of the Fund's activities during the period.

Review and results of operations

1. Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	31 December 2013	31 December 2012
	\$	\$
Net profit for the half-year	2,359,653	2,581,834
Distributions paid and payable	1,818,085	1,515,070
Distributions (cents per unit)	3.00	2.50

The main factors contributing to the profit for the period are:

- Rental income, which includes property expenses recoverable from Lessees, was \$4.3 million and similar to the previous corresponding period;
- Direct property expenses were down \$0.072m compared to the previous corresponding period;
- There was no change recorded for the fair value of investment properties in the current half-year compared to a net increase of \$0.508 million in the previous corresponding period;
- There was a net gain of \$0.039m in the value of the Fund's interest rate derivative compared to a loss of \$0.194m in the previous corresponding period; and
- Finance costs were down \$0.021m compared to the previous corresponding period.

2. Value of Fund's Assets

	31 December 2013	30 June 2013
	\$	\$
Net assets attributable to unitholders	34,525,741	33,984,173
Net asset value ('NAV') per unit	0.5697	0.5608

Review and results of operations (continued)

2. Value of Fund's Assets (continued)

The value of the Fund's assets and liabilities is derived using the basis disclosed in note 2 of the financial statements, of the most recent annual financial report (30 June 2013).

3. Asset Acquisitions & Disposals

There were no asset acquisitions or disposals during the half-year period to 31 December 2013.

4. Debt facilities

On 18 December 2013 the Fund repaid its loan of \$4,917,460 from Align Management Pty Ltd. The loan was originally made by Arena Property Fund to the Fund in September 2008 when Arena Property Fund was the immediate parent entity of the Fund. The loan was assigned by Arena Property Fund to Align Management Pty Ltd in March 2013.

Significant changes in state of affairs

On 2 September 2013 the Responsible Entity of the Fund changed from Arena Investment Management Limited (ACN 077 235 879) to Arrow Funds Management Limited (ACN 146 671 276) and the Fund subsequently changed its name to Arrow Primary Infrastructure Fund on 10 September 2013.

PricewaterhouseCoopers previously audited the Fund as part of a group of funds managed by Arena Investment Management Limited. Following the appointment of Arrow as Responsible Entity of the Fund, PricewaterhouseCoopers was removed as auditor and replaced by Grant Thornton Audit Pty Ltd.

In the opinion of the directors, other than the matters identified in this report, there were no significant changes in the state of affairs of the Fund that occurred during the period ended 31 December 2013.

Matters subsequent to the end of the reporting period

No matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of financial and property markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

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



Andrew Ashbolt
Director

Melbourne
26 February 2014

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration

To the Directors of Arrow Funds Management Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Arrow Primary Infrastructure Fund for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Michael Climpson
Partner

Melbourne, 26 February 2014

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Arrow Primary Infrastructure Fund
Statement of profit or loss and other
comprehensive income
For the half-year ended 31 December 2013

Statement of profit or loss and other comprehensive income

	31 December 2013	31 December 2012
	\$	\$
Revenue		
Property rental	4,340,351	4,380,971
Interest revenue	75,283	82,442
Other operating income	14,670	2,148
Revaluation of investment properties	-	507,969
Total revenue and other income	4,430,304	4,973,530
Expenses		
Direct property expenses	(124,949)	(196,914)
Responsible Entity's management fee	(408,210)	(397,853)
Custodian fee	(19,859)	(17,689)
Loss on sale of assets	-	(764)
Other expenses	(135,910)	(143,595)
Net gain/(loss) on change in fair value of derivative financial instruments	38,793	(193,604)
Finance costs	(1,420,516)	(1,441,277)
Total expenses	(2,070,651)	(2,391,696)
Net profit for the half-year	2,359,653	2,581,834
Other comprehensive income	-	-
Total comprehensive income for the half-year	2,359,653	2,581,834
Total comprehensive income for the half-year is attributable to:		
Unitholders of Arrow Primary Infrastructure Fund	2,359,653	2,581,834

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

Arrow Primary Infrastructure Fund
Statement of financial position
As at 31 December 2013

Statement of financial position

		31 December 2013	30 June 2013
	Notes	\$	\$
Current assets			
Cash and cash equivalents		1,128,446	5,350,327
Trade and other receivables		1,579,904	251,540
Total current assets		2,708,350	5,601,867
Non-current assets			
Trade and other receivables		-	1,380,852
Investment properties	2	55,741,520	55,741,520
Intangible assets	3	7,458,300	7,458,300
Agricultural assets	4	10,430,180	10,430,180
Total non-current assets		73,630,000	75,010,852
Total assets		76,338,350	80,612,719
Current liabilities			
Trade and other payables		315,584	370,675
Distributions payable		918,910	757,535
Interest-bearing liabilities	5	-	4,917,460
Total current liabilities		1,234,494	6,045,670
Non-current liabilities			
Derivative financial instruments		284,832	323,625
Interest-bearing liabilities	5	40,293,283	40,259,251
Total non-current liabilities		40,578,115	40,582,876
Total liabilities		41,812,609	46,628,546
Net assets		34,525,741	33,984,173
Equity			
Contributed equity	6	55,303,659	55,303,659
Accumulated losses	7	(20,777,918)	(21,319,486)
Total equity		34,525,741	33,984,173

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

Arrow Primary Infrastructure Fund
Statement of changes in equity
For the half-year ended 31 December 2013

Statement of changes in equity

	Contributed equity \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2012	55,303,659	(23,827,733)	31,475,926
Profit for the half-year	-	2,581,834	2,581,834
Total comprehensive income for the half-year	-	2,581,834	2,581,834
Transactions with owners in their capacity as owners:			
Distributions provided for or paid	-	(1,515,070)	(1,515,070)
Balance at 31 December 2012	55,303,659	(22,760,969)	32,542,690

	Contributed equity \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2013	55,303,659	(21,319,486)	33,984,173
Profit for the half-year	-	2,359,653	2,359,653
Total comprehensive income for the half-year	-	2,359,653	2,359,653
Transactions with owners in their capacity as owners:			
Distributions provided for or paid	-	(1,818,085)	(1,818,085)
Balance at 31 December 2013	55,303,659	(20,777,918)	34,525,741

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

Arrow Primary Infrastructure Fund
Statement of cash flows
For the half-year ended 31 December 2013

Statement of cash flows

	31 December 2013	31 December 2012
	\$	\$
Cash flows from operating activities		
Property rental receipts	4,579,567	4,195,276
Payments to suppliers	(851,881)	(972,378)
Interest received	78,356	88,544
Finance costs paid	(1,453,753)	(1,454,121)
Net cash inflow from operating activities	2,352,289	1,857,321
Cash flows from investing activities		
Proceeds from sale of assets	-	34,744
Payments for capital expenditure	-	(531,700)
Net cash inflow/ (outflow) from investing activities	-	(496,956)
Cash flows from financing activities		
Repayment of borrowings	(4,917,460)	(450,900)
Distributions paid to unitholders	(1,656,710)	(1,515,070)
Net cash outflow from financing activities	(6,574,170)	(1,965,970)
Net decrease in cash and cash equivalents	(4,221,881)	(605,605)
Cash and cash equivalents at the beginning of the half-year	5,350,327	4,944,586
Cash and cash equivalents at the end of the half-year	1,128,446	4,338,981

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

1 Summary of significant accounting policies

(a) Basis of preparation of half-year financial report

This condensed interim financial report for the half year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting periods. The Fund has not early adopted these standards/interpretations.

The Fund's assessment of the impact of relevant new standards and interpretations is set out below:

Standard/Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Disclosures	<p>AASB 9 <i>Financial Instruments</i> addresses the classification, measurement and derecognition of financial instruments.</p> <p>The standard only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.</p> <p>The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as a result of applying the revised rules.</p>	01/01/2015	30/06/2016

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

2 Investment properties

	31 December 2013	30 June 2013
	\$	\$
At fair value		
Opening balance	55,741,520	54,071,520
Capitalised expenditure	-	598,280
Revaluations/(devaluations)	-	951,059
Changes in fair value for straight-lining of rent adjustment	-	120,661
Closing balance	55,741,520	55,741,520

3 Intangible assets

The Fund owns 5,409 megalitres (June 2013: 5,359 megalitres) of permanent water licences, which form an integral part of the properties under long-term leases.

Water licences have an indefinite useful life as a result of their legal form and are not amortised.

Water licences relating to the Fund's mango farm in the Northern Territory of 4,662 megalitres (June 2013: 4,662 megalitres) have been excluded from intangible assets as they are required to be renewed every 5 years, were acquired at nil cost and are not considered to have a tradeable value. Accordingly, the value of property attributed to these water licences has been reclassified to investment properties.

Movement in the carrying amounts for intangible assets for the half-year/year:

	31 December 2013	30 June 2013
	\$	\$
Opening net book amount	7,458,300	7,458,300
Acquisition cost	-	-
Closing balance	7,458,300	7,458,300

4 Agricultural assets

Trees are an integral part of the agricultural assets that are leased to tenants under long-term leases. The Fund owns the following agricultural assets as at 31 December 2013:

- (a) 43,777 mixed age mango and citrus trees; and
- (b) 609 hectares of mixed age almond trees.

Movement in the carrying amounts for agricultural assets for the half-year/year:

	31 December 2013	30 June 2013
	\$	\$
Opening balance	10,430,180	10,430,180
Revaluations/(devaluations)	-	-
Closing balance	10,430,180	10,430,180

5 Interest bearing liabilities

	31 December 2013	30 June 2013
	\$	\$
Current		
Unsecured		
Loan (i)	-	4,917,460
Total current interest bearing liabilities	-	4,917,460
Non-current		
Secured		
Commercial bills (ii)	40,400,000	40,400,000
Unamortised borrowing costs	(106,717)	(140,749)
Total non-current interest bearing liabilities	40,293,283	40,259,251

- (i) On 28 March 2013 the unsecured loan was assigned from Arena Property Fund to Align Management Pty Ltd. Arena Property Fund was the immediate parent entity of the Fund as at 30 June 2013. Align Management Pty Ltd is related to Arrow Funds Management Limited, which became the responsible entity of the Fund on 2 September 2013. The Fund paid interest on the unsecured loan equivalent to the distribution rate paid to ordinary unitholders.
The loan was repaid in full on 18 December 2013.
- (ii) The Funds' debt facility with the Commonwealth Bank of Australia ('CBA') was refinanced on 22 June 2012 and has a limit of \$40,400,000 and a maturity date of 31 July 2015.

6 Contributed equity

	31 December 2013	30 June 2013	31 December 2013	30 June 2013
	Units	Units	\$	\$
Ordinary units				
Fully paid	60,602,809	60,602,809	55,303,659	55,303,659

6 Contributed equity (continued)

(a) Movements in ordinary units

Date	Details	Number of units	\$
1 July 2012	Opening Balance	60,602,809	55,303,659
30 June 2013	Closing Balance	60,602,809	55,303,659
1 July 2013	Opening Balance	60,602,809	55,303,659
31 Dec 2013	Closing Balance	60,602,809	55,303,659

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

7 Accumulated losses

Movements in accumulated losses were as follows:

	31 December 2013 \$	30 June 2013 \$
Opening accumulated losses	(21,319,486)	(23,827,733)
Net profit for the half-year/year	2,359,653	5,538,388
Distributions paid or payable	(1,818,085)	(3,030,141)
Closing accumulated losses	(20,777,918)	(21,319,486)

Distributions paid or payable to unitholders

	31 December 2013 \$	31 December 2012 \$	31 December 2013 cpu	31 December 2012 cpu
September quarter	909,042	757,535	1.50	1.25
December quarter	909,043	757,535	1.50	1.25
Total distributions to unitholders for the half-year	1,818,085	1,515,070	3.00	2.50

8 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or contingent liabilities as at 31 December 2013 (2012: Nil).

As at 31 December 2013 there were commitments for capital expenditure at the Fund's Lake Powell almond properties for upgrades to pumping and irrigation systems totalling \$160,946 which will be incurred in the period January – March 2014. Capital expenditure on these properties will result in increases in rent equivalent to 9.5% of any expenditure incurred by the Fund.

There were no capital commitments as at 31 December 2012.

9 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2013 or on the results and cash flows of the Fund for the half-year ended on that date.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2013 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



Andrew Ashbolt
Director

Melbourne
26 February 2014

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report To the Unitholders of Arrow Primary Infrastructure Fund

We have reviewed the accompanying half-year financial report of Arrow Primary Infrastructure Fund ("Fund") which comprises the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Responsible Entity of Arrow Primary Infrastructure Fund are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Arrow Primary Infrastructure Fund is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the Fund's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Michael Climpson
Partner

Melbourne, 26 February 2014