the **Local Shopping** reit plc

Investing in Local Shops

The Local Shopping REIT plc

Half Year Report 2009

Who We Are

The Local Shopping REIT plc ("LSR") is a major owner of local retail property in the UK, listed on the London Stock Exchange.

Our investment objective is to provide our shareholders with an attractive and growing level of income, with additional capital growth through active asset management.

We were the first specialist start-up Real Estate Investment Trust ("REIT") to launch in the UK and intend to become the leading owner of local retail property in the UK.

Our investment policy is to acquire local shops in urban and suburban areas, investing in neighbourhood and convenience properties throughout the UK. Our portfolio typically comprises shops that are well established in their local communities, although we will invest in new developments of local shops where these are supported by existing or newly built residential property.

The shops trade across all retail planning consents and there is no concentration of risk in a particular retail sector, as demonstrated on pages 2 and 3. Our intention is to maintain a high level of diversification. The Company currently has the power under its Articles to borrow up to an amount equal to 75% of gross assets at the time of drawdown.

We believe in sustaining the local trading community nationwide and dealing with all our stakeholders in a fair and open manner.

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Highlights

Financial Highlights

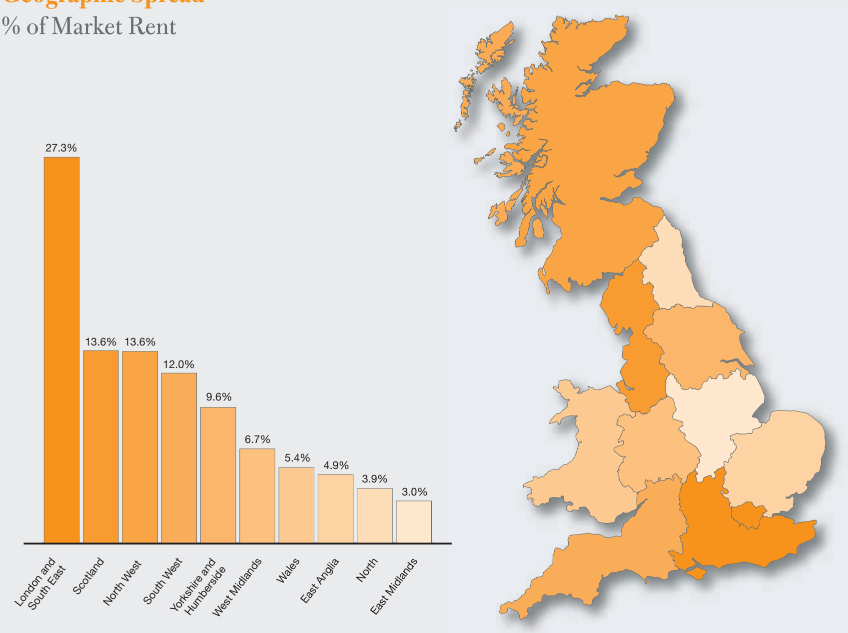
- The Net Asset Value ("NAV") of the Company at 31 March 2009 was £50.3m, or £0.62 per share (30 September 2008: £93.3m, £1.12 per share).
- The adjusted NAV of the Company at 31 March 2009 excluding liabilities arising from derivative financial instruments was £57.0m, or £0.70 per share (30 September 2008: £93.1m, £1.12 per share).
- Portfolio valued at £164.2m as at 31 March 2009, reflecting an equivalent yield of 10.22% (30 September 2008: £202.3m, 8.52% equivalent yield).
- Gross rental income of £7.7m (31 March 2008: £8.6m and £16.7m for the year to 30 September 2008), with the decrease due to the loss of rental income from assets subsequently sold, together with an anticipated increase in voids.
- Recurring profit from the rental business for the period of £1.7m, 2.1p per share (31 March 2008: £2.7m, 3.0p per share and £5.1m for the year to 30 September 2008, 6.1p per share).
- IFRS loss before tax of £40.6m (31 March 2008: £14.5m and £40.5m for the year to 30 September 2008).
- Total debt of £116.9m, reflecting an LTV of 68.4%, but with no ongoing loan-to-value default provisions and low interest cover tests.
- No refinancing due until 2016.
- £60m of undrawn facilities and an additional £42.7m of debt free properties means that LSR is well positioned to exploit buying opportunities arising from current market conditions.
- Interim dividend of 1.7p per share set at a sustainable and prudent level – payable as a property income distribution on 30 June 2009.

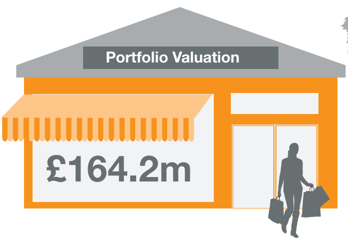
Operational Highlights

- The letting market remains active – 43 vacant retail units successfully let at a rent of £515,724 per annum, 3.6% above market rent, with a further 34 units in solicitors' hands.
- Annual rental increased by over £59,000 through active asset management, producing uplifts above market rent.
- Rental deposits held totalling approximately £865,000, or over 22% of our quarterly rent roll (30 September 2008: £800,000).
- Overall void rate rose from 10.6% at 30 September 2008 to 11.8%, in line with management expectations and unchanged from the level at 31 January 2009.
- Planning consent secured for 16 flats and granted four change of use consents, increasing asset values.
- Planning applications submitted for a further 47 flats.
- Successful sale of 21 properties for a total of £4.26m at a 7.35% initial yield, in line with their 30 September 2008 valuations.
- Four properties sold since the period end for £0.77m, above their 31 March 2009 valuation of £0.71m.
- Signs of increasing appetite for small commercial properties from private investors.

LSR at a Glance

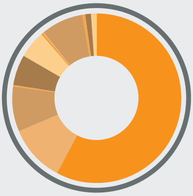
Geographic Spread
% of Market Rent





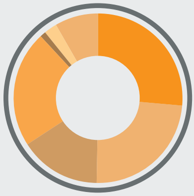
Use Type

% of Market Rent



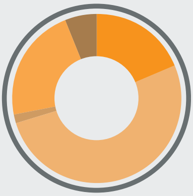
Planning Use

- 58.0% – A1 Shops
- 10.8% – A2 Financial
- 8.5% – A3 Cafes
- 0.4% – A4 Pubs
- 5.7% – A5 Takeaways
- 5.3% – B1 Offices
- 0.3% – B2 Industrial
- 0.2% – B8 Storage
- 8.1% – C3 Residential
- 0.6% – D1 Institutional
- 1.1% – D2 Leisure
- 1.0% – Miscellaneous



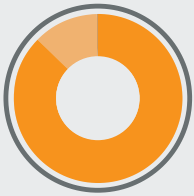
Lease Expiry Profile

- 26.6% – 0-3 years
- 23.9% – 3-6 years
- 15.5% – 6-9 years
- 22.2% – 9 years +
- 1.1% – Vacant (residential)
- 2.6% – Vacant (deliberate)
- 8.1% – Vacant (commercial)



Tenant Grade

- 18.2% – Local company
- 51.9% – Individual
- 1.7% – Government
- 22.2% – National multiple
- 6.0% – Regional multiple



Tenure

- 87.4% – Freehold/virtual freehold
- 12.2% – Leasehold
- 0.4% – Short leasehold < 50 years

We are pleased to announce the Company's interim results covering the six months to 31 March 2009.

£15.5m
Annual rental income

627
Number of properties

Combined Portfolio

Value	£164.2m
Initial yield ("IY")	9.03%
Reversionary yield ("RY")	10.08%
Equivalent yield ("EY")*	10.22%
Rent per annum	£15.5m
Market rent per annum	£17.3m
Commercial value	£149.2m
Residential value	£15.0m

* Equivalent yield excludes the residential element which is valued at a discount to vacant possession value.

The period under review has witnessed a further sharp downturn in values in the property market which suffered a severe correction between the end of September 2008 and January 2009, with confidence severely damaged by the collapse of Lehman Brothers and its aftermath. However, the subsequent sharp reduction in interest rates has left cash rich private investors searching for ways to achieve an acceptable return on their money. In February, they began to return to the property investment market, attracted by the yields on offer, which was particularly reflected in the success rates achieved and prices paid in the February/ March auctions. This higher level of activity has continued into April and May and is also evident in the private treaty market where we have seen multiple bids on a number of the properties we have been selling.

As a result, yields appear to be levelling out, particularly for the smaller lot sizes and better known covenants. However, we remain cautious about rental values and therefore anticipate further, albeit less substantial, valuation falls in the months ahead driven by rental erosion rather than adverse yield shift.

Despite the challenging market conditions, the business has performed in line with our expectations over the period and, though we are not immune from the difficulties that companies in our sector are facing, our leasing activity demonstrates that tenant demand for smaller units remains resilient in the current climate. Our focus on working our assets hard and recycling ex-growth stock has ensured that the Company remains financially strong, providing us with a sound platform to exploit the opportunities we hope to see over the coming months.

Results

Gross rental income for the six month period was £7.7m, compared to £8.6m for the corresponding period in 2008 and £16.7m for the previous full financial year. The fall is due to the loss of rental income from assets subsequently sold, as our cautious approach to market conditions led us to continue to sell lower yielding and ex-growth properties, together with an anticipated increase in the void rate. During the period we sold 21 properties for £4.3m with an annual income of £324,900 per annum. This is in addition to an annual rent of over £1.0m lost as a result of £16.5m of sales during the previous financial year.

Net rental income for the six month period was £6.4m, compared to £7.4m for the corresponding period in 2008 and £14.1m for the previous full financial year. Property operating costs have remained broadly constant overall with the exception of bad debts which have inevitably risen given the challenging economic climate to £377,451 from £287,655 in the corresponding six month period in 2008. Cost savings have been achieved as expected in some areas, but an increasing level of tenant turnover does generate associated higher letting costs although these are often mitigated by our use of Law Society leases.

Net financing costs for the period have risen. The interest charge for the period has increased in comparison to the previous year as a result of the loan draw downs which took place in 2008, the reduction in the over hedging completed in June 2008 (which at the time was reducing our interest charge) and an increase in the cost of the remaining excess hedging following the significant falls in interest rates over recent months. Additionally, as a result of these interest rate falls, the interest received on the Group's cash has fallen significantly.

The recurring profit from the property business for the period was £1.7m or 2.1p per share. This has been calculated by adding back the revaluation loss (£35.4m), the movement in the fair value of the interest rate swaps held (£6.9m) and the profit achieved on the disposal of investment properties (£28,000) to the reported loss of £40.6m.

Revaluation and Net Asset Value

Our portfolio was revalued at 31 March 2009 at £164.2m, reflecting an equivalent yield (excluding the residential element) of 10.22%. As at 31 March 2009 it comprised 627 properties with an annual rental income of £15.5m.

The NAV per share is £0.62, based on 81.4m shares (excluding those held in Treasury and by the Employee Benefit Trust). The adjusted NAV excluding liabilities arising from derivative financial instruments was £0.70 per share.

The Group held £9.4m of cash at the period end. Of this, £3.7m was freely available to the Group to use for any purpose, £2.8m was available to purchase properties, £2.1m was held by the bank to cover the coming interest payments and £0.8m was held as rent deposits received from tenants.

Value Range

	No. of Properties	Value £m	EY*
£0-£100k	154	11.7	10.01%
£101-£200k	239	35.4	9.64%
£201-£500k	157	52.0	10.05%
£501k-£1m	62	42.7	10.57%
£1-£3m	15	22.4	10.97%
Total	627	164.2	10.22%

* Equivalent yield excludes the residential element which is valued at a discount to vacant possession value.

The valuation of the residential element of the portfolio at £15.0m has generally been based on 80% of vacant possession value, although where the flats are in larger blocks a 25% discount has been applied. The average value of a residential unit in our portfolio is now £50,414.

Portfolio Value

31 March 2009	£164.2m
30 September 2008	£202.7m
31 March 2008	£237.9m

Rent Roll

31 March 2009	£15.5m
30 September 2008	£16.1m
31 March 2008	£16.9m

Number of Properties

31 March 2009	627
30 September 2008	641
31 March 2008	652

Number of Tenants

31 March 2009	1,991
30 September 2008	1,976
31 March 2008	2,017

During the year to date we have not made any acquisitions. The existing portfolio has recorded a fall in value of 17.1%, allowing for sales, with the equivalent yield (excluding the residential element) moving out 169bps to 10.22%.

Existing Portfolio – Adjusted for Sales

	31 March 2009	30 September 2008	Change
Value	£164.2m	£198.1m	-17.12%
IY	9.03%	7.57%	+1.46%
RY	10.08%	8.49%	+1.59%
EY*	10.22%	8.53%	+1.69%
Rent pa	£15.5	£15.8m	-1.51%
Market rent pa	£17.3m	£17.7m	-1.97%
Commercial value	£149.2m	£181.6m	-17.85%
Residential value	£15.0m	£16.5m	-9.06%

* Equivalent yield excludes the residential element which is valued at a discount to vacant possession value.

Asset Management

The letting market for our smaller retail units has remained resilient throughout the period. Our strong relationships with our national network of agents allows us to react quickly to potential demand and we are pleased to report that, during the period, we successfully let 43 vacant units at a rent of £515,724 per annum (3.6% above market rent). Additionally we carried out rent reviews on 68 units, increasing the rent by £40,098 per annum (an average uplift of 4.7% and 6.6% above market rent), and renewed leases on 16 units adding a total of £19,710 per annum (an average uplift of 17.0% and 8.4% above market rent). We also extended the long lease of a flat in London securing a £26,000 premium from the tenant.

We continue to identify opportunities to unlock value from the under-used upper parts of some of our properties and adjacent unused land plots. During the period, we obtained planning consent to build 16 flats and submitted planning applications for the development of a further 47 flats. We intend to build out a number of these over the coming months where we can achieve an acceptable rental yield following conversion. In addition, we were granted four consents for a change of use (from A1 to A3 and D1) which has enabled us to let two previously vacant units and sell another. We also created six flats in Epsom and Tewkesbury out of existing retail space where planning consent was not required, with a potential rental value of more than £27,000 per annum.

Void Rate

During the period, our overall void rate has risen to 11.8% (September 2008: 10.6%) which remains in line with our expectations and, encouragingly, is unchanged from the level at 31 January 2009.

Within this, the commercial void rate has risen from 6.9% to 8.1%, reflecting the challenging trading conditions faced by our tenants. Residential voids have fallen to 1.1% (September 2008: 1.4%) while we have increased the level of deliberate voids to 2.6% (September 2008: 2.3%) as we look to exploit opportunities for change of use and reconfigure units to secure increased rents.

	30 September 2008	31 January 2009	31 March 2009
Vacant – Commercial	6.9%	8.2%	8.1%
Vacant – Deliberate	2.3%	2.6%	2.6%
Vacant – Residential	1.4%	1.0%	1.1%
Total	**10.6%**	**11.8%**	**11.8%**

The letting pipeline remains healthy. As at 31 March 2009 there were 34 units under offer at a rent of £386,672 per annum representing 2.2% of the portfolio's market rent.

The November 2008 Pre-Budget Report announced that properties with a rateable value of under £15,000 per annum would be exempt from empty rates charges for the fiscal year 2009-2010. While it is disappointingly only a temporary measure, we estimate approximately two-thirds of our vacant units fall into this category which will have a positive impact on earnings for the remainder of this financial year and the first half of the next.

The challenging trading conditions faced by our tenants have inevitably led to tenant default. We continue to take a robust approach to debt recovery and generally prefer to take back units where tenants are in financial difficulty so we can re-let and improve the quality of our cash flow. During the half year, bad debt write-offs and provisions were £377,451 compared to £287,655 for the corresponding period in 2008 and £734,489 for the previous full financial year.

When we let units to independent tenants, it is our policy to seek rent deposits of between three to six months. As at 31 March 2009 we held deposits totalling approximately £865,000, or over 22% of our quarterly rent roll, which is an increase over the £800,000 held at the end of September 2008. This provides us with a measure of protection against tenant default, which is not generally available when letting units to national retailers.

Sales and Acquisitions

We are constantly monitoring the market for buying opportunities but have not purchased any properties since 30 September 2008 and have no properties under offer to purchase. In line with our stated strategy of selling ex-growth and lower yielding properties we have sold 21 properties, for £4.26m, at an average net initial yield of 7.35% (30 September 2008: valuation £4.23m).

As a result of these sales completed during the first half of the financial year, at 31 March 2009, the Company had a portfolio of 627 properties comprising 1,991 letting units.

Since the period end, we have sold a further four commercial properties for £0.77m, which is above their 31 March 2009 valuation of £0.71m.

Financing

As at 31 March 2009 the Company's total bank borrowing stood at £116.9m and comprised a fixed rate loan from Barclays of £69.2m and an economically hedged floating rate loan with HSBC of £47.7m. These facilities are repayable in full in 2016. Both loans have no ongoing loan-to-value default provisions and low interest cover tests (Barclays: 110% actual or projected with a cash trap at 120%; HSBC: 115% actual and 107% projected).

In addition to being 100% economically hedged on the HSBC loan, the Company has further interest rate swaps totalling £10.7m. At current interest rates, the additional interest cost associated with this over hedging is running at approximately £94,000 per quarter. The changes in the fair value of these swaps are reflected in the income statement. LSR's blended interest rate for loans that have been drawn and committed, at the current loan-to-value ratio, up to the limit of the current hedging level, is 5.69% for over seven years.

We also have an undrawn £60m facility with HSBC which comprises a £25m term loan, to be fully drawn by 4 September 2009 unless extended, and a £35m revolving credit facility. The term of both loans is until October 2016 and they have a loan-to-value covenant of 80% during the drawdown period only. Both loans have interest cover default tests at 120% actual and 110% projected. The margin on the loans vary between 0.80% and 1.60%, depending on the loan-to-value ratio, and a commitment fee of 0.3% per annum is payable on the undrawn balance of the revolving facility.

In addition, the Group holds £42.7m of properties on which there is no debt attached. Together with our undrawn £60m facility this provides us with the flexibility and firepower to exploit future market conditions as they arise.

Dividend

We are pleased to confirm it is our policy to pay 100% of recurring profits as a dividend. While recurring profits for the half year are 2.1p per share, the Board has made the decision, in light of the current uncertain economic climate, to recommend an interim dividend of 1.7p per share which we believe is a sustainable and prudent level. At the year end, the final dividend payment will reflect 100% of the recurring profits of the business for the full year.

The interim dividend will be paid as a property income distribution (PID). The PID is subject to the deduction of withholding tax at the basic rate of tax (20% for 2009-2010). Certain shareholders can claim exemption from the withholding of tax on their PID. In order to claim exemption, should you be eligible, a form can be obtained from the Company's website which should be submitted to the Company's Registrars. The allocation of future dividends between PID and non-PID will vary.

The shares will go ex-dividend on 27 May 2009 with a record date of 29 May 2009 and payment date of 30 June 2009.

Share Cancellations and Buybacks

Since 30 September 2008, the Company has cancelled 675,000 Ordinary 20p Shares held in Treasury. The Company also purchased 630,000 Ordinary 20p Shares at an average price of 33p. Of these shares, 605,000 are held in Treasury and 25,000 were transferred to the Company's Employee Benefit Trust ("EBT") in order to satisfy share awards to employees, which may crystallise in the future. After these transactions the Company has 91,669,870 shares in issue of which 9,164,017 are held in Treasury and 1,123,339 in the EBT. As in previous periods, the EBT will waive the dividend due on these shares.

Principal Risks and Uncertainties for the Remaining Six Months of the Financial Year

The directors believe it is appropriate to prepare the Half Year Report on a going concern basis given an anticipated slowdown in the decline in capital values, the bank facilities available, the uncharged properties owned by the Group and the cash held at the period end.

The risks facing the Group for the remaining six months of the financial year are consistent with those described in the Annual Report for the year ended 30 September 2008. The principal risks are around property valuation, financing and trade receivables.

- Given the continuing uncertain climate surrounding property valuations, the independent valuation to be completed at 30 September 2009 may be affected (positively or negatively) which will have a consequential effect on the Company's net asset value.

- The Group does not consider financing to be a risk given the long-term nature of the outstanding debt which is 100% economically hedged and the level of committed, undrawn facilities available.

- The Group is exposed to the risk of non-payment of trade receivables by its tenants. In the current climate the risk of default has increased. The Group has nearly 2,000 tenants in 627 properties. There is no significant concentration of credit risk due to the large number of small balances owed by a wide range of tenants who operate across all retail sectors. The level of arrears continues to be monitored monthly by the Group and more frequently on a tenant-by-tenant basis by the asset managers.

Outlook

Over the past six months, we have seen a further deterioration in the commercial property market and expect that our tenants will continue to be affected by challenging trading conditions with the UK economy in recession. However, our hands on approach to managing the portfolio will allow us to monitor and deal with difficulties faced by our tenants, while a flexible and proactive approach to lettings will help us maintain the quality of our cash flow.

We anticipate capital values will fall further during the year, driven by falling rents rather than any additional significant rise in yields. To date, we have seen little evidence of forced selling prompted by lenders, but we anticipate bank-led sales will accelerate over the course of 2009-2010. Our active programme of sales and resulting higher level of cash on the balance sheet has impacted our earnings during the period, with the Company receiving less rental and interest income, although we continue to believe that not making any acquisitions over the period has been the best course of action. Notwithstanding this, our strong cash position coupled with our £60m undrawn facility gives us the flexibility and firepower to take advantage of the highly accretive buying opportunities that we expect will emerge over the coming months.

Our future success will be based upon the effective execution of our strategy:

- to ensure the business is financially sound and has operational flexibility;

- to optimise the value of and income from existing assets and recycle ex-growth properties; and

- to prepare the business for growth as markets stabilise, which will be achieved by: organic growth through asset management; individual property purchases; corporate acquisitions and the creation of joint ventures.

Responsibility Statement

We confirm to the best of our knowledge that:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the EU: and

b) the Half Year Report includes a fair review of the information required by

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

Signed on behalf of the Board who approved the half yearly financial report on 19 May 2009.

M E Riley
Joint CEO

N J Gregory
Joint CEO

Independent Review Report to The Local Shopping REIT plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2009, which comprises the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' Responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with IAS 34: "Interim Financial Reporting" as adopted by the EU.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410: "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the UK. A review of interim financial information 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 International Standards on Auditing (UK and Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 March 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Darren K Turner
For and on behalf of KPMG Audit Plc
Chartered Accountants
2 Cornwall Street, Birmingham B3 2DL

19 May 2009

Consolidated Income Statement
for the six months ended 31 March 2009

	Note	**Unaudited Six Months Ended 31 March 2009 £000**	Unaudited Six Months Ended 31 March 2008 £000	Audited Year Ended 30 September 2008 £000
Gross rental income		**7,720**	8,589	16,691
Property operating expenses		**(1,254)**	(1,170)	(2,622)
Net rental income		**6,466**	7,419	14,069
Profit on disposal of investment properties		**28**	9	48
Loss from change in fair value of investment properties		**(35,408)**	(14,639)	(44,358)
Administrative expenses		**(1,299)**	(1,569)	(2,774)
Net other expenses		**(29)**	(114)	(113)
Operating loss		**(30,242)**	(8,894)	(33,128)
Financing income*	3	**53**	174	540
Financing expenses*	3	**(3,471)**	(3,191)	(6,535)
Movement in fair value of financial derivatives	3	**(6,905)**	(2,559)	(1,347)
Loss before taxation		**(40,565)**	(14,470)	(40,470)
Taxation	4	**–**	–	–
Loss for the financial period attributable to equity holders of the Company		**(40,565)**	(14,470)	(40,470)
Basic and diluted loss per share	9	**(48.9)p**	(15.1)p	(44.5)p

* Excluding movement in fair value of financial derivatives

Consolidated Statement of Recognised Income and Expense
for the six months ended 31 March 2009

	Unaudited Six Months Ended 31 March 2009 £000	Unaudited Six Months Ended 31 March 2008 £000	Audited Year Ended 30 September 2008 £000
Loss for the financial period	**(40,565)**	(14,470)	(40,470)
Total recognised income and expense for the period attributable to equity holders of the Company	**(40,565)**	(14,470)	(40,470)

Consolidated Balance Sheet

as at 31 March 2009

	Note	**Unaudited 31 March 2009 £000**	Unaudited 31 March 2008 £000	Audited 30 September 2008 £000
Non-current assets				
Property, plant and equipment		**196**	227	216
Investment properties	6	**165,517**	239,992	203,705
Derivative financial instruments	11	**–**	51	37
Total non-current assets		**165,713**	240,270	203,958
Current assets				
Derivative financial instruments	11	**–**	207	203
Trade and other receivables		**4,354**	5,265	4,546
Investment properties held for resale		**–**	595	–
Cash		**9,423**	5,285	7,527
Total current assets		**13,777**	11,352	12,276
Total assets		**179,490**	251,622	216,234
Non-current liabilities				
Interest bearing loans and borrowings	7	**(116,017)**	(113,233)	(115,927)
Derivative financial instruments	11	**(4,682)**	(1,137)	–
Finance lease liabilities		**(1,296)**	(2,514)	(1,356)
Total non-current liabilities		**(121,995)**	(116,884)	(117,283)
Current liabilities				
Derivative financial instruments	11	**(1,983)**	(93)	–
Bank overdraft		**–**	(13)	–
Interest bearing loans and borrowings	7	**–**	–	–
Trade and other payables		**(5,219)**	(6,041)	(5,613)
Total current liabilities		**(7,202)**	(6,147)	(5,613)
Total liabilities		**(129,197)**	(123,031)	(122,896)
Net assets		**50,293**	128,591	93,338
Equity				
Issued capital	8	**18,334**	20,098	18,469
Reserves	8	**3,773**	3,773	3,773
Capital redemption reserve	8	**1,764**	–	1,629
Retained earnings	8	**26,422**	104,720	69,467
Total attributable to equity holders of the Company		**50,293**	128,591	93,338

Consolidated Statement of Cash Flows

for the six months ended 31 March 2009

	Note	**Unaudited Six Months Ended 31 March 2009 £000**	Unaudited Six Months Ended 31 March 2008 £000	Audited Year Ended 30 September 2008 Restated £000
Operating activities				
Loss for the financial period		**(40,565)**	(14,470)	(40,470)
Adjustments for:				
Loss from change in fair value of investment properties	6	**35,408**	14,639	44,358
Net financing costs	3	**10,323**	5,576	7,342
Profit on disposal of investment properties		**(28)**	(9)	(48)
Depreciation		**20**	13	33
Share-based payments		**88**	89	176
		5,246	5,838	11,391
Decrease/(increase) in trade and other receivables		**191**	(436)	285
Decrease in investment properties held for sale		**–**	3,081	3,081
Decrease in trade and other payables		**(418)**	(115)	(438)
		5,019	8,368	14,319
Interest paid		**(3,393)**	(2,854)	(6,156)
Interest received		**53**	174	540
Corporation tax paid		**–**	(4,573)	(4,573)
Net cash flows from operating activities		**1,679**	1,115	4,130
Investing activities				
Proceeds from sale of investment properties		**4,153**	3,268	13,203
Acquisition of and improvements to investment properties		**(1,405)**	(9,548)	(13,606)
Acquisition of property, plant and equipment		**–**	(167)	(176)
Cash flows from investing activities		**2,748**	(6,447)	(579)
Financing activities				
Costs of own shares acquired	8	**(210)**	(6,903)	(13,590)
New borrowings		**–**	15,000	17,700
Dividends paid		**(2,358)**	(3,176)	(5,829)
Payment of finance lease liabilities		**37**	63	75
Cash flows from financing activities		**(2,531)**	4,984	(1,644)
Net increase/(decrease) in cash		**1,896**	(348)	1,907
Cash at beginning of period		**7,527**	5,620	5,620
Cash at end of period		**9,423**	5,272	7,527

Notes to the Half Year Report
for the six months ended 31 March 2009

1 Accounting Policies

Basis of Preparation

This condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 30 September 2008.

The comparative figures for the financial year ended 30 September 2008 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditors and delivered to the Registrar of Companies. The report of the Auditors was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

The 2008 comparative figures on the cash flow statement have been restated as movements in financial derivatives are non-cash movements and have been classified accordingly.

2 Segmental Reporting

The Group operates a single business segment providing accommodation to rent across the United Kingdom. The Group's net assets, revenue and loss before tax are attributable to this one activity.

3 Net Financing Costs

	Six Months Ended 31 March 2009 £000	Six Months Ended 31 March 2008 £000	Year Ended 30 September 2008 £000
Interest receivable	**53**	174	311
Gain on sale of derivative financial instruments	**–**	–	229
Financing income	**53**	174	540
Bank loan interest	**(3,313)**	(3,016)	(6,230)
Amortisation of loan arrangement fees	**(121)**	(112)	(230)
Head rents treated as finance leases	**(37)**	(63)	(75)
Financing expenses excluding fair value movements	**(3,471)**	(3,191)	(6,535)
Fair value losses on derivative financial instruments	**(6,905)**	(2,559)	(1,347)
Financing expenses	**(10,376)**	(5,750)	(7,882)
Net financing costs	**(10,323)**	(5,576)	(7,342)

4 Taxation

From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group will be exempt from corporation tax on the profits and gains from its investment business from this date, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. The directors consider that all the rental income post 11 May 2007 originates from the Group's tax exempt business.

On entering the UK REIT regime, a conversion charge equal to 2% of the gross market value of properties involved in the property rental business, at that date, became due.

Due to the availability of losses no provision for corporation tax has been made in respect of the residual business. The deferred tax asset not recognised relating to these losses can be carried forward indefinitely. It is not anticipated that these losses will be utilised in the foreseeable future.

5 Dividends

A final dividend of 2.875p per share (total: £2.36m) was paid on 31 December 2008. Under the REIT legislation the Company's dividends are divided into two components, known as PID and non-PID. This dividend was wholly classified as a non-PID.

On 30 June 2008 an interim dividend in respect of the year ended 30 September 2008 was paid of 2.875p per share (total: £2.65m). This dividend was wholly classified as a PID.

On 3 January 2008 a dividend in respect of the year ended 30 September 2007 of 3.419p per share (total: £3.18m) was paid. This dividend was wholly classified as a non-PID.

6 Investment Properties

	Total £000
At 1 October 2008	203,705
Additions	1,405
Disposals	(4,185)
Fair value adjustments	(35,408)
At 31 March 2009	**165,517**

The investment properties have all been revalued to their fair value at 31 March 2009.

A random sample of 25% of the portfolio have been valued by Allsop LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgably, prudently and without compulsion.

6 Investment Properties continued

The remainder of the portfolio has been valued by certain directors who have an appropriate recognised professional qualification and recent experience in the location and category of property being valued.

No investment properties have been identified that meet the criteria of assets held for resale at 31 March 2009.

A reconciliation of the portfolio valuation at 31 March 2009 to the total value for investment properties given in the consolidated balance sheet is as follows:

	31 March 2009 £000	31 March 2008 £000	30 September 2008 £000
Valuation	**164,221**	237,869	202,349
Items not revalued	**–**	204	–
Investment properties held for resale before costs of disposal	**–**	(595)	–
Head leases treated as finance leases under IAS 17	**1,296**	2,514	1,356
Total per consolidated balance sheet	**165,517**	239,992	203,705

7 Interest-bearing Loans and Borrowings

	31 March 2009 £000	31 March 2008 £000	30 September 2008 £000
Non-current liabilities			
Secured bank loans	**116,929**	114,229	116,929
Loan arrangement fees	**(912)**	(996)	(1,002)
	116,017	113,233	115,927
Current liabilities			
Current portion of secured bank loans	**–**	–	–

All loans are repayable in one instalment in 2016.

8 Capital and Reserves

Reconciliation of Movement in Capital and Reserves

	Share Capital £000	Reserves £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
At 1 October 2008	18,469	3,773	1,629	69,467	93,338
Own shares acquired	–	–	–	(210)	(210)
Cancellation of shares	(135)	–	135	–	–
Share-based payments	–	–	–	88	88
Dividends	–	–	–	(2,358)	(2,358)
Total recognised income and expense	–	–	–	(40,565)	(40,565)
At 31 March 2009	**18,334**	**3,773**	**1,764**	**26,422**	**50,293**

The capital redemption reserve arose on the cancellation of 675,000 (30 September 2008: 8,147,920; 31 March 2008: Nil) Ordinary 20p Shares.

9 Loss per Share

Basic Loss per Share

The calculation of basic earnings per share was based on the loss attributable to ordinary shareholders and a weighted average number of Ordinary Shares outstanding, calculated as follows:

Loss Attributable to Ordinary Shares	**Six Months Ended 31 March 2009 £000**	Six Months Ended 31 March 2008 £000	Year Ended 30 September 2008 £000
Loss for the financial period	**(40,565)**	(14,470)	(40,470)

Weighted Average Number of Shares	**Six Months Ended 31 March 2009 Number 000**	Six Months Ended 31 March 2008 Number 000	Year Ended 30 September 2008 Number 000
Issued Ordinary Shares 1 October	**83,111**	97,539	97,539
Effect of own shares held	**(126)**	(1,796)	(6,519)
Weighted average number of Ordinary Shares	**82,985**	95,743	91,020

Diluted Earnings per Share

There is no difference between basic and diluted earnings per share as the effect of share options issued is anti-dilutive.

10 Net Asset Value per Share

The number of shares used to calculate net asset value per share is as follows:

	31 March 2009 Number 000	31 March 2008 Number 000	30 September 2008 Number 000
Number of shares in issue	**90,547**	100,493	92,345
Less shares held in Treasury	**(9,164)**	(7,554)	(9,234)
	81,383	92,939	83,111

	31 March 2009 £000	31 March 2008 £000	30 September 2008 £000
Net assets per consolidated balance sheet	**50,293**	128,591	93,338
Net asset value per share	**£0.62**	£1.38	£1.12

Adjusted Net Asset Value per Share

	31 March 2009 £000	31 March 2008 £000	30 September 2008 £000
Net assets per consolidated balance sheet	**50,293**	128,591	93,338
Fair value of derivative financial instruments	**6,665**	972	(240)
	56,958	129,563	93,098
Net asset value per share	**£0.70**	£1.39	£1.12

11 Financial Instruments and Risk Management

Derivative financial instruments held by the Group are interest rate swaps used to manage the Group's interest rate exposure. These are shown in the consolidated balance sheet as follows.

	Fair Value at 1 October 2008 £000	Movements in Income Statement £000	**Fair Value at 31 March 2009 £000**
Non-current assets	37	(37)	–
Current assets	203	(203)	–
Non-current liabilities	–	(4,682)	**(4,682)**
Current liabilities	–	(1,983)	**(1,983)**
Net asset/(liability)	240		**(6,665)**
Amount charged to consolidated income statement		(6,905)	

The Group's interest rate swaps in place at 31 March 2009 did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

A summary of the swaps and their maturity dates are as follows:

Maturity date	Amount £000	Rate %	At 30 September 2008 £000	Movements in Income Statement £000	**At 31 March 2009 £000**
30 April 2016	33,000	5.06-5.29	(95)	(4,010)	**(4,105)**
31 January 2017	25,378	5.4476	330	(2,890)	**(2,560)**
Swaps in place at 31 March 2009	58,378		235	(6,900)	**(6,665)**
Amortising swap with a maturity date of 31 January 2017	400	5.4476	5	(5)	**–**
Swaps in place at 30 September 2008	58,778		240	(6,905)	**(6,665)**

The derivative financial instruments included in the above tables were valued by JC Rathbone Associates Limited, financial risk consultants, using a discounted cash flow model and published market information.

The Group does not speculate in financial instruments, it only uses them to limit its exposure to interest rate fluctuations. The Group's policy is to hedge between 60% and 100% of its interest rate exposure. At 31 March 2009, 100% (30 September 2008: 100% and 31 March 2008: 100%) of the Group's debt was fixed or protected with further swaps with a notional value of £10,677,745 (30 September 2008: £11,077,745 and 31 March 2008: £35,278,000) in place to cover future draw downs of the floating rate debt facility.

11 Financial Instruments and Risk Management continued

Fair Value

	31 March 2009 £000	31 March 2008 £000	30 September 2008 £000
Fixed rate loan			
Carrying value of loan	**68,920**	68,825	68,869
Mark to market adjustment	**7,594**	(371)	(979)
Fair value	**76,514**	68,454	67,890

12 Related Parties

There have been no transactions with related parties which have materially affected the financial position or performance of the Group during the period nor have there been any changes in related party transactions which could have a material affect on the financial position or performance of the Company during the first six months of the current financial year.

13 Capital Commitments

At 31 March 2009 the Group had contracted capital expenditure for which no provision has been made within these financial statements of £Nil (30 September 2008: £Nil and 31 March 2008: £189,000).

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