the Local Shopping REIT plc

Half Year Report
31 March 2015
Stock Code: LSR

What we do . . .

The Local Shopping REIT plc ("LSR") is a Real Estate Investment Trust ("REIT") invested in a portfolio principally comprising local shopping assets in urban and suburban centres throughout the UK.

Contents

See further information online:
www.localshoppingreit.co.uk

Highlights

- Recurring profit* for the period of £0.44m or 0.53 pence per share ("pps") (H1 2014: £0.92m or 1.13pps).
- Profit for the financial period of £0.11m or 0.13pps (H1 2014: £1.75m or 2.15pps).
- Portfolio valued at 31 March 2015 at £84.9m, reflecting an equivalent yield (excluding the residential element) of 9.28% (30 September 2014: £87.6m, with an equivalent yield of 9.25%).
- Net Asset Value (NAV): £34.9m or 42pps (30 September 2014: £34.8m or 42 pps).
- Adjusted NAV: £38.4m or 47 pps, excluding liabilities arising from derivative financial instruments (30 September 2014: £38.8m, 47 pps).
- Cash holdings of £18.6m.
- Total net debt of £45.9m, reflecting an LTV (taking account of cash reserves) of 54.1%.
- Restructuring of the HSBC debt facility shortly after the period, including the removal of 'payment in kind' interest which would otherwise have accrued from January 2015 and debt repayment of £6.9m.

*Recurring profit is explained in the Results section below.

Directors' Review

The Company has continued to perform robustly in a challenging environment for the retail sector.

Market Context

Against a background of continuing modest improvement in the general economy during the period, growth in activity within the retail market continued to be sustained, with the Office of National Statistics reporting sales in March 2015 4.2% ahead of the March 2014 figure. This was the 24th consecutive month of growth, the longest sustained period of growth since May 2008. This was despite average store prices 3.1% lower than in March 2014, largely due to the 12.8% reduction in car fuel prices over the 12 months. The internet continued to increase its influence, with on-line sales increasing by 10.3% over the 12 months to end-March 2015.

Within this environment, local and independent retailers continue to show resilience, with shop owners as ever reacting to local opportunities to expand the range of their offering in areas such as convenience food and beverage, delivery services and ATM access. The Association of Convenience Stores reporting significantly increasing optimism amongst its members from July 2014 onwards. This has been helped by some Government intervention, such as the 2% rates cap and rates relief for small businesses, as well as the increased business rates discount. However, the sub-sector is likely to be impacted more than others by the recent increase in minimum wage levels.

The UK Investment market has strengthened since mid-2012 with both improved pricing and an increasing number of transactions. This momentum has varied between the sectors, with the market for retail investments being the most subdued, and this has been particularly felt in local shopping assets in secondary, tertiary and non-core locations.

Whilst other sectors have experienced a surge in demand from overseas and domestic institutional capital, local shopping has been largely ignored. Good quality shopping assets continue to sell well at auction, particularly when located in attractive towns or larger cities, but there is little investor appetite for lesser quality stock.

Operating Results

Comparison of the performance of the portfolio with previous periods is inevitably affected by the sale of two of the Company's property-holding subsidiaries, NOS 2 Limited and NOS 3 Limited, in August 2014, in execution of the Company's policy of disposing of its investment property assets.

This reduced the overall portfolio by 235 properties, which had provided a net rental income at August 2014 of £7.07 million.

In addition, eight freehold properties were sold, together with a further two units sold on long leases, of which three contained residential flats. The aggregate gross sale price was £2.18 million, a premium of 14.99% to their preceding valuation.

Profit before tax for the six month period was £0.11 million (or 0.13 pps), compared with a profit of £1.75 million (2.15 pps) for the six months to 31 March 2014 and a profit of £1.21 million (1.47 pps) for the full year to 30 September 2014.

The recurring profit was £0.44 million (or 0.53 pps), compared with £0.92 million (1.13 pps) for the six months to 31 March 2014 and £0.69 million (0.8 pps) for the year to 30 September 2014.

The portfolio achieved gross rental income for the six months to 31 March 2015 of £3.96 million, compared with £7.65 million for the half year to 31 March 2014 (prior to the sale of NOS 2 Limited and NOS 3 Limited). Within this, rent reviews continued to be highly subject to local and regional factors. We also continued to re-gear leases, offering rent concessions where this was justified by resultant enhancement in value.

Property operating expenses were £0.66 million, compared with £1.99 million in H1 2014. The principal reason for this was the removal of costs attributable to NOS 2 Limited and NOS 3 Limited following their sale in August 2013. However, a further significant factor was the reduction of £0.23 million in bad debt charges. The amount of non-recoverable service charges was also reduced. Other cost items remained broadly in line with the H1 in 2014. Profit before tax also incorporates a charge of £0.22 million representing an adjustment to the consideration for the disposal of NOS 2 Limited and NOS 3 Limited in relation to debtor balances.

Profit before tax reflected the movement in fair value of the property portfolio, which was valued at £84.9 million at 31 March 2015, a decrease of £2.7 million on the 30 September 2014 figure of £87.6m. The movement during the period reflected a combination of lower values on a like-for-like basis and the reduction in portfolio value resulting from individual property sales.

The table below summarises the adjustments made between Profit before tax and this recurring profit.

	31 March 2015 £000	31 March 2014 £000	30 Sept 2014 £000
Profit/(loss) before tax (IFRS)	**108**	1,751	1,206
Profit on discontinued operations	**-**	-	-
Profit/(loss) before tax on continuing operations	**108**	1,751	1.206
Reduction in the fair value of the portfolio	**699**	318	496
Increase in the fair value of the interest rate swaps held	**(611)**	(1,255)	(2,267)
Loss (profit) on disposal of investment properties	**26**	(218)	(475)
Non-recurring (income)/ costs & net resolution of aged balances	**-**	323	413
Loss on sale of shares	**-**	-	1,312
Adjustment to portfolio sale proceeds	**216**	-	-
Recurring profit on continuing operations	**438**	919	685

The calculation remains consistent with previous periods.

Revaluation

The investment property portfolio was revalued at £84.91 million as at 31 March 2015, reflecting an equivalent yield (excluding the residential element) of 9.28% (30 September 2014: £87.6m, equivalent yield 9.25%). As at 31 March 2015, the portfolio comprised 382 properties with an annual rental income, net of head rents payable, of £7.64 million, compared to 387 properties and £7.92 million at 30 September 2014.

The portfolio included 1,116 letting units (30 September 2014: 1,190 letting units).

Investment Property Portfolio as at 31 March 2015

Value	£84.91m
Initial Yield ("IY")	8.73%
Reversionary Yield ("RY")	9.67%
Equivalent Yield ("EY")	9.28%
Rent per annum*	£7.64m
Market Rent per annum*	£8.38m

*Net of head rents payable

Value Range	No. of Properties	Value £m	EY
£0–£100k	151	10.28	10.47%
£101k–£200k	119	16.41	9.65%
£201k–£500k	83	25.71	9.53%
£501k–£1m	20	15.39	9.30%
£1m–£3m	7	10.57	8.07%
£3m +	2	6.55	7.31%
Total	**382**	**84.91**	**9.28%**

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

The table above illustrates the range of property values throughout the portfolio. The average property value is £222,272 and the median is £120,000. The residential element of the portfolio has been valued at £11.590 million, typically based on 85% of vacant possession value. The average value of the residential units in our portfolio is £51,000.

Portfolio — Like-for-like Comparison

	31 March 2015	30 Sept 2014	Change
Value	**£84.91m**	£85.82m	-1.07%
IY	**8.73%**	8.86%	-14 bps
RY	**9.67%**	9.61%	+6 bps
EY	**9.28%**	9.27%	+1 bps
Rent pa*	**£7.64m**	£7.82m	-2.37%
Market Rent pa*	**£8.38m**	£8.41m	-0.37%

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

*Net of head rents payable

Directors' Review continued

The portfolio recorded a 1.07% fall in value on a like-for-like basis during the period, with the equivalent yield (excluding the residential element) remaining stable at 9.28% (30 September 2014: 9.27%).

Market rents and yields across the portfolio remain highly subject to regional influence, as illustrated by the table below.

Region	31 March 2015 EY	31 March 2014 EY	Change bbs
East Anglia	**10.60%**	9.82%	+78
London	**8.44%**	8.46%	-1
South East	**8.84%**	8.89%	-5
South West	**9.60%**	9.53%	+7
West Midlands	**9.42%**	9.60%	-18
Wales	**9.41%**	9.27%	+14
Yorks & Humberside	**9.64%**	9.62%	+2
East Midlands	**10.12%**	10.32%	-20
North	**11.17%**	10.87%	+30
Scotland	**10.11%**	10.04%	+8
North West	**9.54%**	9.69%	-15

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

During the six month period like-for-like rental income decreased by 2.37%, and Market Rent decreased by 0.37%.

Net Asset Value ("NAV")

During the period NAV rose by 0.3% to £34.9 million or £0.42 per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2014: £34.8 million, £0.42 per share).

The adjusted NAV of the Company as at 31 March 2015, excluding liabilities arising from derivative financial instruments, was £38.4 million or £0.47 per share (30 September 2014: £38.8 million, £0.47 per share).

The Group held £18.56 million of cash at the end of the period.

Asset Management

We continue with our flexible approach to leasing, which is suited to the local occupier market, generally preferring agreed stepped rents to offering rent-free periods. During the period we let twenty-one units at a combined rent of £174,870 per annum against aggregate Market Rent of £176,700. Of these, three incorporated stepped rent increases whereby the aggregate initial rent will rise to exceed the current Market Rent over the first two years of the leases. The other eighteen units were let at a 0.93% premium to Market Rent. Our average rent free period on lettings completed during the period was 118 days. At 31 March 2015 three units were under offer for letting at a combined rent of £32,000.

Rent reviews, which were completed on twenty-four units resulting in aggregate rental income of £508,407 per annum against combined Market Rents of £451,070 (a premium of 12.71% to Market Rent). In addition, leases were renewed with twenty-four existing tenants, resulting in a net rental increase of £1,370 (0.59%), which was £17,460 (8.04%) ahead of Market Rent. On a like-for-like basis total rental income decreased by 1.92% since 30 September 2014, together with a 1.87% decrease in like-for-like Market Rent.

During the period consent was obtained for one change of use.

The overall void rate within the portfolio at 31 March 2015 was 13.18% of portfolio Market Rent, equivalent to Market Rent of £1.11 million (30 September 2014: 11.94% and £1.03 million). The Market Rent for void commercial properties was £0.97 million, whilst £0.14 million was attributable to residential units (30 September 2014: £0.91m and £0.12m).

We continue our robust approach to rent defaults, which is suited to the local retail market, taking back units for re-letting as soon as practicable. The bad debt charge reduced significantly during the period compared with the six months to end-March 2014.

Our policy is to seek rent deposits for new lettings or assignments wherever appropriate. As at 31 March 2015, we held deposits in respect of commercial tenants totalling £0.43 million, or 25.84% of our quarterly rent roll (30 September 2014: £0.47 million and 27.76%). This provides us with a measure of protection against tenant default which is not generally available when letting units to national retailers. Further deposits, typically equating to one month's rent, are held by our managing agents and the Deposit Protection Service in respect of residential tenancies.

Financing

During the period, the Group operated using the loan facilities provided by HSBC Bank plc ("HSBC"). As at 31 March 2015, the facilities were as set out below.

Loan	Amount Outstanding £m	LTV Covenant	Amortisation	Termination Date
HSBC – Term Loan 1	45.27m	91.5% – NOS 4/6 combined	1.8% pa of outstanding loan	30 April 2018
HSBC – Term Loan 2	19.27m	91.5% – NOS 4/6 combined	1.8% pa of outstanding loan	30 April 2018
	Total £64.54m			

At 31 March 2015 the debt outstanding was £64.54million (30 September 2014: £65.1m).

The two facilities provided by HSBC Bank plc ("HSBC") were subject to cross-collateralisation of the corresponding property portfolios, with a fixed margin of 2% applying to both facilities. An additional payment in kind ("PIK") margin accrued from 1 January 2015 and was payable on repayment of the loans (accruing at the rate of 1%. per annum from 1 January 2015, 1.5 %. from 1 January 2016 and 2%. thereafter from 1 January 2017). Amortisation instalments are paid on each interest payment date, calculated as 0.45% of the aggregate loan balance outstanding.

Both loan facilities have actual and forecast interest cover tests which must be complied with under the terms of the facilities. The interest cover is tested on each quarterly interest payment date. At each testing date during the period the loans were determined to be compliant.

On 29 April 2015, following the period end, the facilities provided by HSBC were restructured as follows. The PIK margin applicable from January 2015 has been removed, which will reduce considerably the interest payable over the lifetime of the facility. In order to facilitate this change certain amendments were made to the loan to value ("LTV") and interest cover ratio ("ICR") covenants and a loan repayment of £6.9 million was made. Immediately following the loan repayment, the LTV ratio fell to 72.5%, compared with the revised default LTV level of 82.5%.

Other changes to the facilities included the introduction of an LTV ratchet which unlocks lower interest margins and reduced amortisation requirements at lower levels of gearing and the removal of the obligation to hedge interest rate exposure (subject to continuing to satisfy the ICR covenant).

The small reduction in covenant headroom is compensated by the significant savings in interest payments (PIK and cash margins) which are estimated at £1.3 million over the remainder of the loan period. Additionally, after having made the loan repayment the Group still holds a considerable amount of cash which could be deployed to pay down debt in the unlikely event that a loan covenant is breached. Furthermore, the revised debt terms and the optionality provided by the LTV ratchet improves the attractiveness of the portfolio to potential purchasers.

Following the refinance, the average cost of debt, including margin, was 6.7%. Were the restructuring of the HSBC facilities not undertaken, the cost of debt would have risen to 7.2%. At 31 March 2015 the Group held £5.7 million of property which does not have any debt secured against it, together with cash of £18.6 million (30 September 2014: £15.7 million).

Dividend

In line with the Company's current dividend distribution policy no interim dividend will be paid. The Board will continue to review the dividend policy in line with progress with the investment strategy.

Directors' Review continued

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

The directors consider it appropriate to prepare the Half Year Statement on a Going Concern basis given the Group's diverse tenant base, the improving outlook for capital values, the bank facilities available, the uncharged properties owned by the Group, the cash held at the period end and the potential proceeds arising from property sales.

The risks facing the Group for the remaining six months of the financial year remain consistent with those described in detail in the Annual Report for the year ended 30 September 2014 (available on the Company's website: www.localshoppingreit. co.uk). These centre on:

- Changes in the macroeconomic environment
- Higher than anticipated property maintenance costs
- Changes to legal environment, planning law or local planning policy
- Regulatory requirements in connection with property portfolio
- Information technology systems and data security
- Financial market conditions
- Capital management and liquidity

The Group does not consider financing to be a risk given the long term nature of the outstanding debt, the hedging facilities in place and the level of debt-free properties in the portfolio.

The Group does not speculate in derivative financial instruments and only uses them to hedge its exposure to fluctuations in interest rates. However, movements in the fair value of the derivative financial instruments do affect the income statement and consequently the Net Asset Value recorded on the Consolidated Balance Sheet.

The Group is exposed to the risk of non-payment of trade receivables by its tenants. However, the Directors consider that this does not comprise an undue concentration of credit risk, given that the risk is spread across in excess of 1,000 tenants operating across all retail occupations spread throughout the UK. The level of arrears is monitored continually by the Group's asset managers and subject to monthly review at executive level.

Outlook

The continuing month-on-month increase retail sector sales volume appears to be related in large measure to sales discounting. However, there are positive signs for retailers, including the local shopping sub-sector, in the longer term. These include the reduced level of fuel and energy costs, rises in real wages, improvements in the jobs market and the likely continuation of relatively low interest rates. Local retailers, whose business is often based on the sale of consumer staples, appear to remain unfazed by potential problems in the Eurozone and uncertainties over the future make-up of the Government and policy application.

As noted in previous statements, the trading environment for independent shops and convenience retailers is highly subject to regional and local factors. During the coming months we expect these to include the local consequences of decisions by major supermarket chains over the future of their sites, as well as their continued expansion into convenience shopping. Internet shopping, home delivery and "click & collect", also provide increasing competition for our occupier market. However, flexibility is key to independent retailing and it appears that those retailers most likely to be affected by new challenges are quickest to respond to them. Overall, we expect our occupier market to continue to perform with continued resilience, which we expect to see reflected in the Group's income stream and asset value.

Since the change of investment strategy adopted by shareholders in July 2013 we have sold £84.2 million of property, representing 49% of the Group's portfolio at that time. The remaining assets have been marketed and ongoing discussions are taking place with an interested party. In the event that those discussions prove fruitless then we will continue with a sales programme of individual assets or small portfolio sales. The majority of the interest rate hedges attached to the Group's debt expire in June of next year this should result in a significant reduction in the Group's financing costs, with a corresponding improvement in cash flow, enabling us to accelerate the pace of disposals unfettered. To that end we will seek, subject to market conditions and capacity, to complete the disposal process by the end of 2017 and return cash to shareholders as soon as possible thereafter.

S J East
Chairman

Responsibility Statement

We confirm to the best of our knowledge:

(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 20 May 2015.

SR Faber
Director

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 2015 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed 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 Conduct Authority ("the UK FCA"). 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 FCA.

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 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Leech, for and on behalf of
KPMG LLP

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

20 May 2015

Condensed Consolidated Income Statement

for the six months ended 31 March 2015

	Note	**Unaudited Six months ended 31 March 2015 £000**	Unaudited Six months ended 31 March 2014 £000	Audited Year ended 30 September 2014 £000
Gross rental income		**3,962**	7,646	13,851
Property operating expenses		**(658)**	(1,985)	(3,865)
Net rental income		**3,304**	5,661	9,986
Profit\(loss) on disposal of investment properties		**(26)**	218	475
Loss on disposal of subsidiaries		**–**	–	(1,312)
Loss on change in fair value of investment properties	6	**(699)**	(318)	(496)
Administrative expenses		**(1,020)**	(1,002)	(2,152)
Net other income		**–**	4	5
Share of results from jointly controlled entities	7	**(3)**	19	(4)
Operating profit before net financing costs		**1,556**	4,582	6,502
Financing income*	3	**8**	2	3
Financing expenses*	3	**(2,067)**	(4,088)	(7,566)
Movement in fair value of derivatives	3	**611**	1,255	2,267
Profit before taxation		**108**	1,751	1,206
Tax	4	**–**	–	–
Profit for the financial period from continuing operations		**108**	1,751	1,206
Profit for the financial period attributable to equity holders of the Company		**108**	1,751	1,206
Basic and diluted profit per share for the financial period		**0.1p**	2.1p	1.5p
Basic and diluted profit per share on continuing operations for the period	11	**0.1p**	2.1p	1.5p

* Excluding movements in the fair value of financial derivatives

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 March 2015

	Unaudited Six months ended 31 March 2015 £000	Unaudited Six months ended 31 March 2014 £000	Audited Year ended 30 September 2014 £000
Profit for the period	**108**	1,751	1,206
Total comprehensive income for the period	**108**	1,751	1,206
Attributable to:			
Equity holders of the parent Company	**108**	1,751	1,206

Condensed Consolidated Balance Sheet
as at 31 March 2015

	Note	Unaudited 31 March 2015 £000	Unaudited 31 March 2014 £000	Audited 30 September 2014 £000
Non-current assets				
Property, plant and equipment		–	–	–
Investment properties	6	82,935	84,519	86,201
Investments in jointly controlled entities	7	40	526	292
Other investments	8	–	–	–
Total non-current assets		82,975	85,045	86,493
Current assets				
Trade and other receivables		1,722	2,156	3,461
Investment properties held for sale		2,645	5,775	2,035
Assets of a disposal group held for sale	10	–	83,354	–
Cash		18,556	3,753	15,662
Total current assets		22,923	95,038	21,158
Total assets		105,898	180,083	107,651
Non current liabilities				
Interest bearing loans and borrowings	9	(63,113)	(64,178)	(63,642)
Finance lease liabilities		(672)	(672)	(672)
Derivative financial instruments	13	(1,079)	(2,690)	(1,634)
Total non-current liabilities		(64,864)	(67,540)	(65,948)
Current liabilities				
Interest bearing loans and borrowings	9	(1,153)	(1,173)	(1,164)
Trade and other payables		(2,609)	(2,961)	(3,319)
Liabilities of a disposal group held for sale	10	–	(70,688)	-
Derivative financial instruments	13	(2,332)	(2,344)	(2,388)
Total current liabilities		(6,094)	(77,166)	(6,871)
Total liabilities		(70,958)	(144,706)	(72,819)
Net assets		34,940	35,377	34,832
Equity				
Issued capital		18,334	18,334	18,334
Reserves		3,773	3,773	3,773
Capital redemption reserve		1,764	1,764	1,764
Retained earnings		11,069	11,506	10,961
Total attributable to equity holders of the Company		34,940	35,377	34,832

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 March 2015

	Note	**Unaudited Six months ended 31 March 2015 £000**	Unaudited Six months ended 31 March 2014 £000	Audited Year ended 30 September 2014 £000
Operating activities				
Profit for the financial period		**108**	1,751	1,206
Adjustments for:				
Loss on change in fair value of investment properties	6	**699**	318	496
Net financing costs	3	**1,448**	2,831	5,296
Loss\(Profit) on disposal of investment properties		**26**	(218)	(475)
Loss on disposal of subsidiaries			-	1,312
Share of results of jointly controlled entities		**2**	(19)	4
		2,283	4,663	7,839
Decrease/(increase) in trade and other receivables		**1,739**	2,628	1,220
Increase in trade and other receivables held for disposal		**-**	(1,656)	-
Decrease in trade and other payables		**(710)**	(3,646)	(1,108)
Increase in trade and other payables held for disposal		**-**	2,729	-
		3,312	4,718	7,951
Interest paid		**(2,023)**	(3,881)	(8,026)
Loan arrangement fees paid		**-**		(143)
Interest received		**8**	2	3
Net cash flows from operating activities		**1,297**	839	(215)
Investing activities				
Proceeds from sale of investment properties		**2,127**	1,823	4,255
Cash transferred on disposal of properties		**-**	-	(1,350)
Net proceeds from sale of subsidiaries		**-**	-	10,283
Acquisition of and improvements to investment properties		**(196)**	(613)	(1,045)
Repayment of investment in jointly controlled entities	7	**250**	-	210
Cash flows from investing activities		**2,181**	1,210	12,353
Net cash flows from operating activities and investing activities		**3,478**	2,049	12,138
Financing activities				
Repayment of borrowings		**(584)**	(1,402)	(3,102)
Cash flows from financing activities		**(584)**	(1,402)	(3,102)
Net (decrease)/increase in cash		**2,894**	647	9,036
Cash at beginning of period		**15,662**	6,626	6,626
Cash included in assets held for disposal		**-**	(3,520)	-
Cash at end of period		**18,556**	3,753	15,662

Condensed Consolidated Statement of Changes in Equity

For the six months ended March 2015

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 30 September 2013	18,334	3,773	1,764	9,755	33,626
Total comprehensive income for the period					
Profit for the period	–	–	–	1,751	1,751
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners					
At 31 March 2014	18,334	3,773	1,764	11,506	35,377
Total comprehensive income for the period					
Loss for the period	–	–	–	(545)	(545)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners					
At 30 September 2014	18,334	3,773	1,764	10,961	34,832
Total comprehensive income for the period					
Profit for the period	–	–	–	108	108
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners					
At 31 March 2015	**18,334**	**3,773**	**1,764**	**11,069**	**34,940**

Notes to the Half Year Report
for the six months ended 31 March 2015

1. Accounting policies

Basis of preparation

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

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) 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 2014 (with which they should be read in conjunction).

The comparative figures for the financial year ended 30 September 2014 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 498 (2) or (3) of the Companies Act 2006.

2. Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reported to the chief operating decision maker to allocate resources to the segments and to assess their performance.

Since the establishment of the jointly controlled entities and other investments the Group has identified two operating and reporting segments which are reported to the Board of directors on a quarterly basis, The Board of directors are considered to be the chief operating decision makers.

The financial information presented quarterly to the Board is the recurring profit achieved by each segment. The segments identified are: the properties directly owned by the Group and the asset management income earned, together with the share of results due to the Group from the joint ventures.

Following the strategic review, the Board consider there to be only one reportable segment.

3. Net financing costs

	Six months ended 31 March 2015 £000	Six months ended 31 March 2014 £000	Year ended 30 September 2014 £000
Interest receivable	**8**	2	3
Financing income excluding fair value movements	**8**	2	3
Fair value gains on derivative financial instruments (see note 13)	**611**	1,255	2,267
	619	1,257	2,270
Bank loan interest	**(2,006)**	(3,988)	(7,366)
Amortisation of loan arrangement fees	**(44)**	(72)	(146)
Write off of loan arrangement fees	**–**	–	–
Head rents treated as finance leases	**(17)**	(28)	(54)
Financing expenses excluding fair value movements	**(2,067)**	(4,088)	(7,566)
Fair value losses on derivative financial instruments	**–**	–	–
Financing expenses	**(2,067)**	(4,088)	(7,566)
Net financing costs	**(1,448)**	(2,831)	(5,296)

4. Taxation

From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group is 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 which was paid in full.

Due to the availability of losses no provision for corporation tax has been made in these accounts. 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.

Notes to the Half Year Report
for the six months ended 31 March 2015 continued

5. Dividends
No dividends have been paid since December 2012.

6. Investment properties

	Total £000
At 1 October 2014	86,201
Additions	196
Disposals	(2,153)
Fair value adjustments	(699)
Movement on investment properties held for sale	(610)
At 31 March 2015	**82,935**

The investment properties have all been revalued to their fair value at 31 March 2015.

All properties acquired since 1 October 2013, together with a sample selected by the valuers 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 Valuation Standards 2011 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.

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

A reconciliation of the portfolio valuation at 31 March 2015 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	31 March 2015 £000	31 March 2014 £000	30 September 2014 £000
Portfolio valuation	**84,908**	83,847	85,529
Head leases treated as investment properties held under finance leases in accordance with IAS 17	**672**	672	672
Total per Consolidated Balance Sheet	**85,580**	84,519	86,201

7. Investments in jointly controlled entities

The Group has the following investments in jointly controlled entity:

	Ownership 31 March 2015	31 March 2014	30 September 2014
Gracechurch Commercial Investments Limited	50%	50%	50%

On 28 September 2011 an agreement was entered into with Gracechurch Commercial Investments Limited, a newly incorporated entity. The initial investment made was £500,000. The principal activity of the entity was to acquire properties for investment purposes. During 2014 the company disposed of all its properties and is now in liquidation. The investment is carried in the balance sheet at its estimated net realisation after expenses of winding up.

	31 March 2015 £000	31 March 2014 £000	30 September 2014 £000
Cost	–	–	–
At beginning of period	293	507	507
Equity investments	–	–	–
Loan advances	–	–	–
Loans repaid	–	–	(210)
Share of results, net of tax	–	19	(4)
Distributions received	(250)	–	–
Provision for liquidation costs	(3)	–	–
At end of period	40	526	293

The summarised financial information in respect of the Group's share of the jointly controlled entities is shown below, for information only. As the company did not trade during the period, data for the six months to 31March 2015 is not available.

Notes to the Half Year Report for the six months ended 31 March 2014 continued

	31 March 2014 £000	30 September 2014 £000
Non-current assets	1,019	–
Current assets	39	317
Non-current liabilities	(488)	–
Current liabilities	(44)	(24)
	526	293

	31 March 2014 £000	30 September 2014 £000
Represented by:		
Capital	500	500
Loans	210	–
Share of results brought forward	(203)	(203)
Share of results, net of tax	19	(4)
Group's share of net assets	526	293

	31 March 2014 £000	30 September 2014 £000
Net rental income	47	84
Property expenses	(6)	(11)
Administrative expenses	(7)	(13)
Change in fair value of properties	–	–
Net interest payable	(14)	(26)
Movement in fair value of financial derivatives	–	9
(Loss)/profit on disposal of investment properties	–	(49)
Tax	(1)	2
	19	(4)

8. Other investments

The Company has no Other Investments.

9. Interest-bearing loans and borrowings

	31 March 2015 £000	31 March 2014 £000	30 September 2014 £000
Non-current liabilities			
Secured bank loans	**63,388**	64,541	63,961
Loan arrangement fees	**(275)**	(363)	(319)
	63,113	64,178	63,642
Current liabilities			
Current portion of secured bank loans	**1,153**	1,173	1,164

All bank borrowings are secured by fixed charges over certain of the Group's property assets and floating charges over the companies which own the assets charged.

The loans are amortised by 0.45% of the balance outstanding on a quarterly basis, and the final balance is repayable in 2018.

10. Disposal group

As part of the ongoing policy of realisation of the group's assets, at 31 March 2014 the shares of two of the subsidiary companies, NOS 2 Limited and NOS 3 Limited were being marketed as a single unit sale which included their joint financing arrangements.

Notes to the Half Year Report for the six months ended 31 March 2014 continued

The following assets and liabilities were deemed to be held for sale as part of this process:

As at 31 March 2014	**Total £000**
Assets	
Trade and other receivables	1,656
Investment properties held for sale	78,178
Cash	3,520
Total Assets held for sale	**83,354**
Liabilities	
Interest bearing loans and borrowings	(67,709)
Trade and other payables	(2,729)
Finance lease liabilities	(250)
Total Liabilities held for sale	**(70,688)**
Total net assets held for sale	**12,666**

11. Earnings per share

Basic earnings per share

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

Profit attributable to ordinary shares:

	Six months ended 31 March 2015 £000	Six months ended 31 March 2014 £000	Year ended 30 September 2014 £000
Profit for the financial period	**108**	1,750	1,206

Weighted average number of shares:

	31 March 2015 Number 000	31 March 2014 Number 000	30 September 2014 Number 000
Issued ordinary shares	**91,670**	91,670	91,670
Shares held by EBT	**(1,096)**	(1,096)	(1,096)
Treasury shares	**(9,164)**	(9,164)	(9,164)
Weighted average number of ordinary shares	**81,410**	81,410	81,410

Diluted earnings per share

There is no difference between the basic and diluted earnings per share.

12. Net asset value (NAV)

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

	31 March 2015 Number 000	31 March 2014 Number 000	30 September 2014 Number 000
Number of shares in issue	**91,670**	91,670	91,670
Less: shares held in Treasury	**(9,164)**	(9,164)	(9,164)
	82,506	82,506	82,506

	31 March 2015 £000	31 March 2014 £000	30 September 2014 £000
Net assets per Consolidated Balance Sheet	**34,940**	35,377	34,832
Net asset value per share	**£0.42**	£0.43	£0.42

Adjusted net asset value per share:

	31 March 2015 £000	31 March 2014 £000	30 September 2014 £000
Net assets per Consolidated Balance Sheet	**34,940**	35,377	34,832
Fair value of derivative financial instruments	**3,411**	5,034	4,022
	38,351	40,411	38,854
Adjusted net asset value per share	**£0.47**	£0.49	£0.47

Notes to the Half Year Report for the six months ended 31 March 2014 continued

13. Derivative financial instruments

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 2014 £000	Movements in Income Statement £000	Fair value at 31 March 2015 £000
Non current liabilities	(1,634)	(555)	**(1,079)**
Current liabilities	(2,388)	(56)	**(2,332)**
Net liabilities	(4,022)		**(3,411)**
Amount credited to Consolidated Income Statement		(611)	

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Value at 30 September 2014 £000	Movements in Income Statement £000	Value at 31 March 2015 £000
20,577	16-Jul-07	31-Jan-17	4.85	(1,658)	(168)	(1,490)
22,500	30-Apr-13	29-Jul-16	5.05	(1,612)	(302)	(1,310)
10,500	30-Apr-13	29-Jul-16	5.05	(752)	(141)	(611)
				(4,022)	(611)	(3,411)

The derivative financial instruments included in the above tables are stated at their fair value based on quotations from the Group's bank.

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 2015: 83% (30 September 2014: 83% and 31 March 2014: 92%) of the Group's debt was fixed.

14. Related parties

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

15. Significant contracts

With effect from 22 July 2013 the Company entered into a management agreement with Internos Global Investors Limited ("Internos"). Under this agreement the Company pays to Internos:

1. An annual management fee of 0.70% of the gross asset value of the portfolio, subject to a minimum fee of £1m in each of the first two years, £0.95m for the third year and £0.9m for the fourth year;
2. An annual performance fee of 20% of the recurring operating profits above a pre-agreed target recurring profit;
3. Fees for property sales as follows: up to £50m nil; £50m–£150m 0.5% of sales; over £150m 1.5% of sales
4. A terminal fee of 5.7% of cash returned to the Company's shareholders in excess of 36.1 pence per share per annum from the Effective Date outside of dividend payments (the "Terminal Fee Hurdle"). The Terminal Fee Hurdle rises by 8% per annum after the first year but reduces on a pro-rata daily basis each time equity is returned to shareholders outside of dividend payments from recurring operating profits.

Under the terms of the agreement Internos received a fee of £509,000 (September 2014–£1,319,000 March 2014–£589,000).

Notes

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