the **Local Shopping** reit plc

LOCAL PROPERTY EXPERTISE

Half Year Report 31 March 2010

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. 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

OPERATIONAL HIGHLIGHTS

- The letting market remains active – 48 vacant retail units let at a rent of £444,964 per annum, with lettings agreed on a further 27 units
- Letting of ten newly converted flats adding £65,350 to the annual rent roll
- Rent reviews completed on 93 units, increasing annual rental income by £46,064
- 15 leases renewed, increasing annual rental income by £5,175
- £934,000 held in rental deposits, representing over 23% of the quarterly rent roll (30 September 2009: £900,000)
- Planning consent secured for 26 flats and four change of use consents granted, increasing asset values
- Active acquisitions and disposals programme under way:
  - 15 properties acquired for £6.08m at an average yield of 7.95% with a further seven properties acquired for a total of £5.63m since the period end
  - Successful sale of ten ex-growth properties for a total of £2.41m, at a small premium to their 30 September 2009 valuations
- Ongoing progress with securing asset management opportunities with lending banks:
  - Appointed to manage a small mixed-use portfolio in the North West at the request of a large UK bank
  - Legal agreement signed with another UK lender to manage the properties acquired when they take back control from their borrowers
  - Discussions ongoing with a number of lenders about assisting them with distressed property situations.

FINANCIAL HIGHLIGHTS

- IFRS profit before tax of £7.5m (31 March 2009: a loss of £40.6m and a loss of £31.0m for the year to 30 September 2009)
- Recurring profit from the rental business for the period of £1.4m or 1.7p per share (31 March 2009: £1.7m, 2.1p per share and £2.9m for the year to 30 September 2009, 3.5p per share)
- The Net Asset Value ("NAV") of the Company at 31 March 2010 increased 10.4% to £64.6m, or £0.78 per share (30 September 2009, £58.6m, £0.71 per share)
- The adjusted NAV of the Company at 31 March 2010 excluding liabilities arising from derivative financial instruments increased 11.5% to £71.2m, or £0.86 per share (30 September 2009, £63.9m, £0.77 per share)
- Portfolio value up 5.2% to £187.1m as at 31 March 2010, reflecting an equivalent yield of 8.86% (30 September 2009: £174.4m, 9.47% equivalent yield)
- Gross rental income of £7.5m (31 March 2009: £7.7m and £15.3m for the year to 30 September 2009)
- Robust balance sheet and prudent debt management:
  - Total debt of £122.4m, reflecting an LTV of 64.1%
  - No refinancing due until 2016
  - £54.5m of undrawn facilities and an additional £29.1m of debt free properties, enhancing the Company's firepower and flexibility to react to acquisition opportunities as they arise
- Interim dividend of 1.7p per share – payable as a Property Income Distribution on 30 June 2010.

LSR at a Glance

PORTFOLIO VALUATION

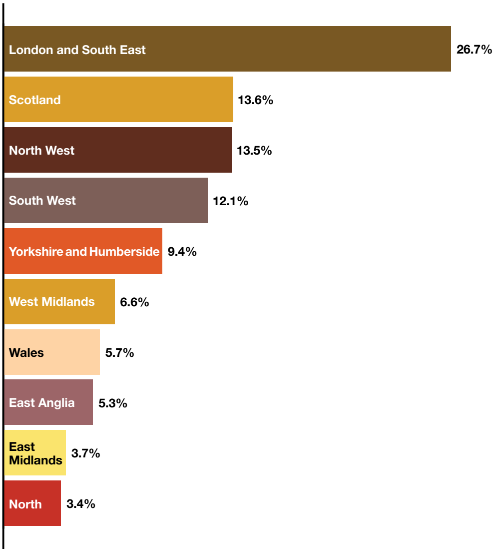
Portfolio Valuation	£187.1m
Total	£187.1m

AVERAGE SHOP RENT
£12,084PA

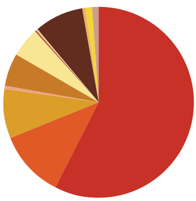
MEDIAN PROPERTY VALUE
£170,000

AVERAGE SHOP RENT
£11.18
PER SQ FT

GEOGRAPHIC SPREAD – % OF MARKET RENT

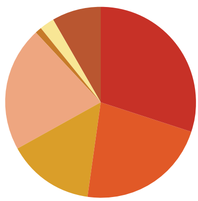


% OF MARKET RENT



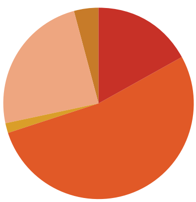
Planning Use

- 57.7% – A1 Shops
- 11.2% – A2 Financial
- 8.6% – A3 Cafes/restaurants
- 0.4% – A4 Pubs
- 5.7% – A5 Takeaways
- 4.9% – B1 Offices
- 0.3% – B2 Industrial
- 0.2% – B8 Storage
- 8.4% – C3 Residential
- 0.6% – D1 Institutional
- 1.1% – D2 Leisure
- 0.9% – Miscellaneous



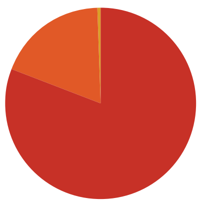
Lease Expiry Profile

- 30.2% – 0-3 years
- 22.2% – 3-6 years
- 14.5% – 6-9 years
- 21.2% – 9 years +
- 1.0% – Vacant (residential)
- 2.7% – Vacant (deliberate)
- 8.2% – Vacant (commercial)



Tenant Grade

- 17.1% – Local company
- 53.1% – Individual
- 1.5% – Government
- 24.2% – National multiple
- 4.1% – Regional multiple



Tenure

- 81.0% – Freehold/virtual freehold
- 18.6% – Leasehold
- 0.4% – Short leasehold < 50 years

Chairman's Statement and Joint Chief Executive Officers' Review

We are pleased to announce the Company's interim results covering the six months to 31 March 2010.

The period under review has witnessed a further improvement in values since 30 September 2009, which is reflected in the 5.2% increase in the value of our portfolio. Private investors remain active, albeit increasingly selective, in their search for income producing assets and since January we have seen a meaningful increase in the amount of stock on the market in response to this demand. However, the strength and longevity of the recovery that we have seen in values since mid-summer 2009 will continue to depend on both the health of the occupier market and the outlook for interest rates. A sustainable recovery in values will also require a substantial rise in bank lending, something we believe is unlikely in the short term. Given the uncertain outlook for the economy we are therefore maintaining our cautious view of the prospects for the investment market.

However, despite the tough conditions in the occupier market, the business has performed in line with our expectations over the period. Our leasing activity demonstrates that tenant demand for smaller units remains resilient and our focus on working our assets hard and recycling ex-growth stock has ensured that the Company remains financially strong. Our highly specialised and well-regarded skill base will allow us to continue to exploit the opportunities we hope to see over the coming months.

Results

The IFRS profit before tax for the period was £7.5m (31 March 2009: a loss of £40.6m and a loss of £31.0m for the year to 30 September 2009).

Gross rental income for the six-month period was £7.5m, representing a fall of £0.2m when compared to the six months to 31 March 2009. This is largely as a result of the timing of sales and purchases, with the sales during the period completing during the first three months while the purchases completed more recently.

Net rental income has fallen by £0.1m compared to the six months to 31 March 2009. This is less than the fall in gross rental income as a result of a small reduction in property operating costs, which is due to lower rates payable, as we benefit from the rates exemptions available to smaller properties together with further savings achieved by completing more legal agreements in-house. Administrative costs continue to be well controlled despite the increase in bank charges as a result of the undrawn commitment fees due on the loan facility.

Interest costs have increased by £0.2m compared to the six months to 31 March 2009 and the 12 months to 30 September 2009. Despite the over-hedged position amortising by £0.2m per quarter, swap rates have continued to fall causing the interest cost of this over-hedged position to rise.

The recurring profit for the period is £1.4m. This has been calculated by deducting the revaluation of the portfolio (£7.3m) from the reported profit of £7.5m, then adding back the further fall in value of the interest rate swaps (£1.2m) and the loss on disposal of investment properties and fixed assets (£16,000).

Revaluation and Net Asset Value

Our portfolio was revalued at 31 March 2010 at £187.1m, reflecting an equivalent yield (excluding the residential element) of 8.86%. As at 31 March 2010 it comprised 633 properties with an annual rental income of £15.6m.

Combined Portfolio

Value	£187.1m
Initial Yield ("IY")	7.96%
Reversionary Yield ("RY")	8.78%
Equivalent Yield ("EY")*	8.86%
Rent per annum	£15.6m
Market Rent per annum	£17.2m

Value Range

	No. of Properties	Value £m	EY*
£0–£100k	144	10.8	9.35%
£101k–£200k	227	33.6	8.97%
£201k–£500k	160	51.2	8.71%
£501k–£1m	77	52.2	8.93%
£1m–£3m	24	36.2	8.82%
£3m+	1	3.1	7.42%
Total	**633**	**187.1**	**8.86%**

The existing portfolio has recorded a 5.2% increase in value, allowing for sales, with the equivalent yield (excluding the residential element) moving in 57 bps to 8.91%.

Existing Portfolio – Adjusted for Sales

	31 March 2010	30 September 2009	Change
Value	£181.0m	£172.0m	+5.21%
IY	7.99%	8.53%	-54bp
RY	8.82%	9.47%	-65bp
EY*	8.91%	9.48%	-57bp
Rent pa	£15.2m	£15.3m	-1.17%
Market Rent pa	£16.7m	£17.0m	-1.71%

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

As a result of the upward revaluation of the portfolio, the NAV per share has risen 10.4% since 30 September 2009 to £0.78 per share, based on 82.5m shares (excluding those held in Treasury). This increase has been mitigated by a £1.2m (£0.01 per share) decrease in the fair value of the Group's interest rate swaps during the period. The adjusted NAV excluding liabilities arising from derivative financial instruments was up 11.5% to £0.86 per share.

The Group held £6.3m of cash at the end of the period, of which £1.1m was held in substitution accounts to use for property purchases.

Asset Management

Against a challenging economic backdrop, we recognise the importance of working our existing assets hard. Since 30 September 2009, the Company has maintained a flexible approach to leasing. We believe it is important when letting units to independent traders to concentrate on maximising cash flow, rather than offering extended rent-free periods, as are now commonplace in many shopping centres and on the traditional high street. This approach has resulted in the letting of 48 vacant units at a total rent of £444,964 per annum. While this was 8.0% below Market Rent at commencement, 15 of these new lettings incorporate stepped rent increases, which we have ignored in our comparison. These 15 lettings were at an initial rent of £138,040 per annum rising to £185,400 per annum over the first three years of their leases, compared with a Market Rent of £180,040 per annum. The remaining 33 units were let at 1.2% above Market Rent. The letting pipeline also remains healthy, with 27 units under offer, as at 31 March 2010, at a combined rental of £319,740 per annum.

In addition, we completed rent reviews on 93 units, increasing rental income by £46,064 per annum, representing an average uplift of 3.6%, and 8.9% above Market Rent. We also renewed 15 leases, increasing rental income by £5,175 per annum at an average uplift of 5.2% and 1.3% above Market Rent.

Chairman's Statement and Joint Chief Executive Officers' Review continued

Portfolio Value

31 March 2010	**£187.1m**
30 September 2009	£174.4m
31 March 2009	£164.2m

Rent Roll

31 March 2010	**£15.6m**
30 September 2009	£15.5m
31 March 2009	£15.5m

Number of Properties

31 March 2010	**633**
30 September 2009	627
31 March 2009	627

Number of Tenants

31 March 2010	**2,011**
30 September 2009	1,976
31 March 2009	1,991

We continue to work hard to extract value from the under-used upper floors of some of our properties and adjacent unused land. Since 30 September 2009, we have secured planning consent for 26 flats and the reconfiguration of four retail units. As mentioned at the year end, we will build out these flats where we can achieve an acceptable rental yield following conversion. During the period, the first such conversion was completed in Braintree where five flats were built within a former office suite which had a rental value of £11,600 per annum. These have now all been let at a combined rent of £30,600 per annum. A further conversion of six flats in an adjoining block with a market value of £39,960 per annum was completed just prior to the period end. In Exmouth, we completed a further five flat conversions and are pleased to report that these have all been let at a combined rent of £34,750 per annum. We have also obtained three change of use consents on vacant retail units from A1 (shops) to A5 (hot food takeaway) and one from A1 (shops) to A2 (financial), which will significantly improve their letting prospects.

Following the recent substantial fall in UK commercial property values, the vast majority of lenders are beginning to put in place their strategies for dealing with defaulting loans. Our business model, encompassing nationwide coverage, an extensive network of local agents and our intensive and specialist asset management skills, places us in a unique position to deal with the operational and financial aspects of managing smaller lot sized properties throughout the UK.

During the period we were engaged by a large UK bank to manage a small mixed portfolio in the North-West for a fee. In addition, we entered into a legal agreement with another UK lender to manage the smaller investment properties it acquires when it has to take back control from borrowers and, since the period end, have already begun managing one property on its behalf. Our remuneration for this project is based upon an acquisition fee, management fee and profit share on ultimate disposal. We hope to build on this progress over the coming months as lenders refine their individual approaches to dealing with problem loans and active discussions are under way with a number of lending banks.

Void Rate

During the period, our overall void rate has risen to 11.9% (September 2009 – 11.4%) which remains in line with our expectations and is unchanged from the level reported at 31 January 2010.

Within this, the core commercial void rate has risen marginally from 8.1% to 8.2%, reflecting the continuing difficult trading conditions faced by our tenants. Residential voids have risen to 1.0% (September 2009 – 0.7%) largely due to the recent completion of the conversion of six flats in Braintree. The level of deliberate voids has also risen slightly to 2.7% (September 2009: 2.6%) as we look to build upon our success in exploiting opportunities for change of use and reconfiguring units to secure increased rents.

	31 March 2009	31 July 2009	30 September 2009	31 January 2010	31 March 2010
Vacant – Commercial	8.1%	8.5%	8.1%	8.0%	8.2%
Vacant – Deliberate	2.6%	2.6%	2.6%	2.6%	2.7%
Vacant – Residential	1.1%	0.8%	0.7%	1.3%	1.0%
Total	**11.8%**	**11.9%**	**11.4%**	**11.9%**	**11.9%**

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. In light of this, we have taken an increasingly prudent approach towards bad debts over the last few months. As a result, during the half year, bad debt write-offs and provisions were £437,881 compared with £377,451 for the corresponding period in 2009 and £1,043,297 for the previous full financial year.

When we let units to independent tenants or deal with lease assignments, it is our policy to seek rent deposits of between three to six months. As at 31 March 2010, we held deposits totalling approximately £934,000, or over 23% of our quarterly rent roll, an increase over the £900,000 held at the end of September 2009. This provides us with a measure of protection against tenant default, which is not generally available when letting units to national retailers.

Acquisitions and Sales

Property values have improved further since 30 September 2009, although there have been recent signs that buyers are becoming more discriminating. In response to the rise in values, vendors' pricing aspirations have risen accordingly. Although the volume of deals has increased, there are few truly distressed sellers in the market and we are taking a highly selective approach to ensure that we pay appropriate prices. Many properties are now over rented and it is important not to be seduced by high initial yields. With prices still well below their previous peak, we have taken the opportunity to make accretive acquisitions of properties with sustainable rents and potential for growth through fixed or RPI linked rent reviews or active asset management.

Since 30 September 2009, we have purchased 15 properties for £6.08m, at an average yield of 7.95%. In addition, since the period end we have purchased a further seven properties for £5.63m and exchanged contracts to purchase a further property for £0.24m. Recent acquisitions have included a neighbourhood centre in Derby anchored by a Tesco Express, a highly reversionary Co-op convenience store in Southport and a shop in Downham Market, which is well let to a regional charity and has potential for the creation of two flats in the unused upper parts.

In line with our ongoing policy to sell ex-growth properties, we have sold ten properties, including one part disposal, since 30 September 2009 for a total of £2.41m, at an average yield of 8.23% (of which four were contracted prior to 30 September, with a total sale price of £1.47m). These sales were at a small premium to their September 2009 valuation before costs of sale.

As a result of these purchases and sales, as at 31 March 2010 the Company had a portfolio of 633 properties comprising over 2,000 letting units.

Financing

At 31 March 2010, the Group's borrowing totalled £122.4m. The Group has a fixed rate loan of £69.2m from Barclays and a floating rate economically hedged loan of £47.7m from HSBC. The Group has a second £60m facility with HSBC comprising a £35m revolving

Chairman's Statement and Joint Chief Executive Officers' Review continued

loan and a £25m fixed term loan with a draw down deadline of 31 January 2013. All three facilities are repayable in one instalment in 2016. In February we began to draw down on the £25m fixed term loan in order to take advantage of the buying opportunities now being presented by the market. At 31 March 2010, £5.5m had been drawn and a further £5.0m has been drawn since the period end.

The first two loans described above have no ongoing loan-to-value (LTV) default provisions. On the second HSBC facility, now being drawn down, there is a LTV covenant of 85% for the duration of the loan. The interest cover tests on all loans are low, ranging from actual ICRs of 110% to 120% and forecast ICRs of between 107% to 120%. On the second HSBC facility there is an undrawn commitment fee of 60 basis points on the undrawn balance of the revolver facility and 40 basis points (rising to 60 basis points) on the undrawn balance of the term facility.

The Group holds £29.1m of property which does not have any debt secured against it. This, together with the undrawn facility, provides the Group with the flexibility and firepower to exploit opportunities as they arise.

Dividend

We are pleased to confirm it is our policy to pay 100% of recurring profits as a dividend. The Board has decided to distribute an interim dividend of 1.7p per share. 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 2010–2011). 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 (www.localshoppingreit.co.uk), which should be submitted to the Company's Registrars. The allocation of future dividends between PID and non-PID may vary.

The dividend will be distributed on 30 June 2010. The shares will become ex-dividend on 2 June 2010 with a record date of 4 June 2010.

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

The directors believe it is appropriate to prepare the Half Year Statement on a going concern basis given the more stable outlook for 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 2009. The principal risks are around property valuation, financial instruments, financing and trade receivables.

- Given the weakness of the economy and the resulting uncertain backdrop to property valuations, the independent valuation to be completed at 30 September 2010 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 does not speculate in derivative financial instruments and only uses them to hedge its exposure to fluctuations in interest rates. However, movements in interest rates do affect the fair value of the derivative financial instruments recorded on the Consolidated Balance Sheet which can significantly affect the Net Asset Value of the Group

- The Group is exposed to the risk of non-payment of trade receivables by its tenants. In the current economic climate the risk of default continues to be significant. The Group has over 2,000 tenants in 633 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

While it is too early to assess the impact of the incoming Government's deficit reduction programme, the economy remains delicately balanced and downside risks persist. Such an economic backdrop will continue to present a challenging retail environment for our tenants. We will therefore maintain our focus on actively working the existing portfolio and building on our ongoing success in lettings, lease renewals, rent reviews and other active asset management initiatives including the conversion of unused upper floors into flats which both produce additional income and have the potential to be sold at a later stage in order to crystallise value. 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.

Within the property investment market, there have been recent signs that the run up in capital values may be tailing off in a response to a rise in supply, with buyers becoming a little more selective. We are therefore concentrating our buying on making accretive acquisitions of properties with sustainable rents and potential for growth through fixed or RPI linked rent reviews or active asset management. At the same time we will continue to sell ex-growth properties and reinvest the proceeds where we can find better value.

As a result of our focus on maximising the value of our existing assets and recycling our ex-growth stock, the Company continues to maintain a strong financial position. In addition, our nationwide coverage, extensive network of local agents and specialist "hands-on" asset management skills provide us with a unique capability to manage smaller properties throughout the UK. We are in discussions with a number of lenders on how we may be able to use these valuable skills to help them to deal with distressed property situations and, as reported in December, we are now managing a small mixed-use portfolio in the North West at the request of a large UK bank. More recently we have entered into a legal agreement with another UK lender to manage the smaller investment properties they acquire when they take back control from their borrowers. We believe that such distressed situations may provide us with compelling opportunities that have the potential to generate attractive returns for our shareholders. We therefore intend to deploy our financial resources cautiously over the coming months until we have greater visibility on the nature and extent of these opportunities so that we retain the flexibility to deploy our financial firepower quickly to secure the most accretive transactions.

We believe that our future success will, therefore, be based upon the continuing effective execution of our strategy to:

- Optimise the value of, and income from, existing assets and recycle ex-growth properties
- Prepare the business for growth, which will be achieved by:
  - individual property purchases;
  - portfolio or corporate acquisitions;
  - the creation of joint ventures; and
  - the management of distressed assets.

Grahame Whateley
Chairman

M E Riley
Joint CEO

N J Gregory
Joint CEO

25 May 2010

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 25 May 2010.

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 2010, 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 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 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

D K Turner (senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
25 May 2010

Condensed Consolidated Income Statement for the six months ended 31 March 2010

	Note	**Unaudited Six Months Ended 31 March 2010 £000**	Unaudited Six Months Ended 31 March 2009 £000	Audited Year Ended 30 September 2009 £000
Gross rental income		**7,534**	7,720	15,319
Property operating expenses		**(1,205)**	(1,254)	(2,891)
Net rental income		**6,329**	6,466	12,428
Loss on disposal of fixed assets		**(4)**	–	–
(Loss)/profit on disposal of investment properties		**(12)**	28	3
Profit/(loss) from change in fair value of investment properties		**7,324**	(35,408)	(28,275)
Administrative expenses		**(1,288)**	(1,299)	(2,491)
Net other (expenses)/income		**(37)**	(29)	5
Operating profit/(loss) before net financing costs		**12,312**	(30,242)	(18,330)
Financing income*	3	**5**	53	58
Financing expenses*	3	**(3,615)**	(3,471)	(7,147)
Movement in fair value of financial derivatives	3	**(1,244)**	(6,905)	(5,578)
Profit/(loss) before taxation		**7,458**	(40,565)	(30,997)
Taxation	4	**–**	–	–
Profit/(loss) for the financial period attributable to equity holders of the Company		**7,458**	(40,565)	(30,997)
Basic and diluted earnings/(loss) per share	8	**9.0p**	(48.9)p	(37.5)p

* Excluding movement in the fair value of financial derivatives

Condensed Consolidated Balance Sheet as at 31 March 2010

	Note	**Unaudited 31 March 2010 £000**	Unaudited 31 March 2009 £000	Audited 30 September 2009 £000
Non-current assets				
Property, plant and equipment		**198**	196	180
Investment properties	6	**188,013**	165,517	174,156
Total non-current assets		**188,211**	165,713	174,336
Current assets				
Trade and other receivables		**4,077**	4,354	4,646
Investment properties held for resale		**–**	–	1,300
Cash		**6,297**	9,423	5,949
Total current assets		**10,374**	13,777	11,895
Total assets		**198,585**	179,490	186,231
Non-current liabilities				
Interest-bearing loans and borrowings	7	**(121,688)**	(116,017)	(116,133)
Finance lease liabilities		**(924)**	(1,296)	(1,024)
Derivative financial instruments	10	**(4,212)**	(4,682)	(2,976)
Total non-current liabilities		**(126,824)**	(121,995)	(120,133)
Current liabilities				
Interest-bearing loans and borrowings	7	**–**	–	–
Trade and other payables		**(4,743)**	(5,219)	(5,170)
Derivative financial instruments	10	**(2,370)**	(1,983)	(2,362)
Total current liabilities		**(7,113)**	(7,202)	(7,532)
Total liabilities		**(133,937)**	(129,197)	(127,665)
Net assets		**64,648**	50,293	58,566
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		**40,777**	26,422	34,695
Total attributable to equity holders of the Company		**64,648**	50,293	58,566

The financial statements were approved by the Board on 25 May 2010. They were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

Condensed Consolidated Statement of Cash Flows for the six months ended 31 March 2010

	Note	**Unaudited Six Months Ended 31 March 2010 £000**	Unaudited Six Months Ended 31 March 2009 £000	Audited Year Ended 30 September 2009 £000
Operating activities				
Profit/(loss) for the financial period		**7,458**	(40,565)	(30,997)
Adjustments for:				
(Profit)/loss from change in fair value				
of investment properties	6	**(7,324)**	35,408	28,275
Net financing costs	3	**4,854**	10,323	12,667
Loss on disposal of fixed assets		**4**	–	–
Loss/(profit) on disposal of investment properties		**12**	(28)	(3)
Depreciation		**20**	20	41
Share-based payments		**89**	88	176
		5,113	5,246	10,159
Decrease/(increase) in trade and other receivables		**568**	191	(100)
Decrease in trade and other payables		**(337)**	(418)	(257)
		5,344	5,019	9,802
Interest paid		**(3,675)**	(3,393)	(6,948)
Interest received		**5**	53	58
Corporation tax paid		**–**	–	(253)
Net cash flows from operating activities		**1,674**	1,679	2,659
Investing activities				
Proceeds from sale of investment properties		**2,360**	4,153	6,922
Acquisition of and improvements to investment properties		**(7,704)**	(1,405)	(7,277)
Acquisition of property, plant and equipment		**(42)**	–	(5)
Cash flows from investing activities		**(5,386)**	2,748	(360)
Financing activities				
Costs of own shares acquired		**–**	(210)	(210)
New borrowings		**5,500**	–	–
Dividends paid		**(1,465)**	(2,358)	(3,741)
Payment of finance lease liabilities		**25**	37	74
Cash flows from financing activities		**4,060**	(2,531)	(3,877)
Net increase/(decrease) in cash		**348**	1,896	(1,578)
Cash at beginning of period		**5,949**	7,527	7,527
Cash at end of period		**6,297**	9,423	5,949

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 March 2010

	Unaudited Six Months Ended 31 March 2010 £000	Unaudited Six Months Ended 31 March 2009 £000	Audited Year Ended 30 September 2009 £000
Profit/(loss) for the period	**7,458**	(40,565)	(30,997)
Total comprehensive income for the period	**7,458**	(40,565)	(30,997)
Attributable to:			
Equity holders of the parent company	**7,458**	(40,565)	(30,997)

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 March 2010

	Share Capital £000	Reserves £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
At 30 September 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
Dividend	–	–	–	(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
Share-based payments	–	–	–	88	88
Dividends	–	–	–	(1,383)	(1,383)
Total recognised income and expense	–	–	–	9,568	9,568
At 30 September 2009	18,334	3,773	1,764	34,695	58,566
Share-based payments	–	–	–	89	89
Dividends	–	–	–	(1,465)	(1,465)
Total recognised income and expense	–	–	–	7,458	7,458
At 31 March 2010	**18,334**	**3,773**	**1,764**	**40,777**	**64,648**

Notes to the Half Year Report for the six months ended 31 March 2010

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 2009 (with which they should be read in conjunction) except for the following which became effective and were adopted by the Group.

IAS 1 (revised) – Presentation of financial statements;
IAS 23 (revised) – Borrowing costs;
Amendment to IFRS 2 – Share-based payments; and
IFRS 8 Operating segments.

The adoption of these standards and interpretations has not had a significant impact on the results for the period. The Group continues to operate a single business segment providing accommodation to rent across the United Kingdom which is the basis of information provided internally to the Joint Chief Executives who are the Group's chief operating decision makers.

The comparative figures for the financial year ended 30 September 2009 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

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

3 Net Financing Costs

	Six Months Ended 31 March 2010 £000	Six Months Ended 31 March 2009 £000	Year Ended 30 September 2009 £000
Interest receivable	**5**	53	58
Financing income	**5**	53	58
Bank loan interest	**(3,466)**	(3,313)	(6,825)
Amortisation of loan arrangement fees	**(124)**	(121)	(248)
Head rents treated as finance leases	**(25)**	(37)	(74)
Financing expenses excluding fair value movements	**(3,615)**	(3,471)	(7,147)
Fair value losses on derivative financial instruments (see note 10)	**(1,244)**	(6,905)	(5,578)
Financing expenses	**(4,859)**	(10,376)	(12,725)
Net financing costs	**(4,854)**	(10,323)	(12,667)

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 which has now been 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.

5 Dividends

A dividend of 1.8p per share (total: £1.46m) was paid on 31 December 2009. 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 2009 an interim dividend was paid of 1.7p per share (total: £1.38m). This dividend was wholly classified as a PID.

On 31 December 2008 a dividend was paid of 2.875p per share (total: £2.65m). This dividend was wholly classified as a non-PID.

Notes to the Half Year Report for the six months ended 31 March 2010 continued

6 Investment Properties

	Total £000
At 1 October 2009	174,156
Additions	7,704
Disposals	(1,171)
Fair value adjustments	7,324
At 31 March 2010	**188,013**

The investment properties have all been revalued to their fair value at 31 March 2010.

All properties acquired since 1 October 2009, 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 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 knowledgeably, 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.

No investment properties have been identified that meet the criteria of assets held for resale at 31 March 2010.

A reconciliation of the portfolio valuation at 31 March 2010 to the total value for investment properties given in the consolidated balance sheet is as follows:

	31 March 2010 £000	31 March 2009 £000	30 September 2009 £000
Portfolio valuation	**187,089**	164,221	174,432
Investment properties held for sale	**–**	–	(1,300)
Head leases treated as investment properties held under finance leases in accordance with IAS 17	**924**	1,296	1,024
Total per consolidated balance sheet	**188,013**	165,517	174,156

7 Interest-bearing Loans and Borrowings

	31 March 2010 £000	31 March 2009 £000	30 September 2009 £000
Non-current liabilities			
Secured bank loans	**122,429**	116,929	116,929
Loan arrangement fees	**(741)**	(912)	(796)
	121,688	116,017	116,133
Current liabilities			
Current portion of secured bank loans	**–**	–	–

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.

All loans are repayable in one instalment in 2016.

8 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/(loss) Attributable to Ordinary Shares	Six Months Ended 31 March 2010 £000	Six Months Ended 31 March 2009 £000	Year Ended 30 September 2009 £000
Profit/(loss) for the financial period	**7,458**	(40,565)	(30,997)

Weighted Average Number of Shares	Six Months Ended 31 March 2010 Number 000	Six Months Ended 31 March 2009 Number 000	Year Ended 30 September 2009 Number 000
Issued Ordinary Shares 1 October	**82,506**	83,111	83,111
Effect of own shares held	**–**	(126)	(429)
Weighted average number of Ordinary Shares	**82,506**	82,985	82,682

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.

Notes to the Half Year Report for the six months ended 31 March 2010 continued

9 Net Asset Value per Share

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

	31 March 2010 Number 000	31 March 2009 Number 000	30 September 2009 Number 000
Number of shares in issue	**91,670**	90,547	91,670
Less shares held in Treasury	**(9,164)**	(9,164)	(9,164)
	82,506	81,383	82,506

	31 March 2010 £000	31 March 2009 £000	30 September 2009 £000
Net assets per consolidated balance sheet	**64,648**	50,293	58,566
Net asset value per share	**£0.78**	£0.62	£0.71

Adjusted Net Asset Value per Share

	31 March 2010 £000	31 March 2009 £000	30 September 2009 £000
Net assets per consolidated balance sheet	**64,648**	50,293	58,566
Fair value of derivative financial instruments	**6,582**	6,665	5,338
Adjusted net assets	**71,230**	56,958	63,904
Adjusted net asset value per share	**£0.86**	£0.70	£0.77

10 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 2009 £000	Movements in income statement £000	**Fair Value at 31 March 2010 £000**
Non-current liabilities	(2,976)	(1,236)	**(4,212)**
Current liabilities	(2,362)	(8)	**(2,370)**
Net liability	(5,338)		**(6,582)**
Amount charged to consolidated income statement		(1,244)	

The Group's interest rate swaps in place at 31 March 2010, 30 September 2009 and 31 March 2009 did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

10 Derivative Financial Instruments continued

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

Maturity date	Amount £000	Rate %	At 30 September 2009 £000	Movements in income statement £000	**At 31 March 2010 £000**
30 April 2016	33,000	5.06–5.29	(3,315)	(775)	**(4,090)**
31 January 2017	24,778	5.4476	(1,991)	(501)	**(2,492)**
Swaps in place at 31 March 2010	57,778		(5,306)	(1,276)	**(6,582)**
Amortising swap with a maturity date of 31 January 2017	400	5.4476	(32)	32	**–**
Swaps in place at 30 September 2009	58,178		(5,338)	(1,244)	**(6,582)**

The derivative financial instruments included in the above tables were valued by JC Rathbone Associates Limited, independent financial risk management 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 2010, 100% (30 September 2009: 100% and 31 March 2009: 100%) of the Group's debt was fixed or protected with further swaps with a notional value of £4,577,745 (30 September 2009: £10,477,745 and 31 March 2009: £10,677,745) in place to cover future draw downs of the floating rate debt facility.

Fair Value	**31 March 2010 £000**	31 March 2009 £000	30 September 2009 £000
Fixed rate loan			
Carrying value of loan	**69,022**	68,920	68,869
Mark to market adjustment	**7,577**	7,594	5,923
Fair value	**76,599**	76,514	74,792

11 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.

12 Capital Commitments

At 31 March 2010 the Group had contracted capital expenditure for which no provision has been made within these financial statements of £1,173,000 (30 September 2009: £735,000 and 31 March 2009: £Nil).

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