the **Local Shopping** reit plc

Contents

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 are 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.

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

LSR at a Glance

Operational Highlights

- 36 properties acquired during the period for a total consideration of £8.64m, bringing LSR's total portfolio to 652 properties, comprising over 2,000 letting units
- New acquisitions positively revalued at £9.0m, a 4.1% increase (excluding costs of acquisition) which reflects an equivalent yield (excluding the residential element) of 7.34%
- Annual rental increased by over £566,000 through:
  - active asset management, producing uplifts above market rent and increasing annual rental by £207,646
  - the successful letting of 35 vacant units at 9.8% above market rent – increasing annual rent by £358,775 per annum
- Average initial yield on new purchases of 7.56%
- Successful sale of 17 lower yielding/ex-growth properties for a total of £6.22m at a 5.86% initial yield, in line with their 30 September 2007 valuations
- Planning consent secured for two flats and five change of use applications, increasing asset values
- Planning applications submitted for a further 24 flats and three retail units
- Eight commercial properties sold since the period end for £2.28m at a level higher than their 31 March 2008 valuation of £2.22m, together with 34 flats for a total of £1.75m compared to their March 2008 valuation of £1.59m

Financial Highlights

- The Net Asset Value (NAV) of the Company at 31 March 2008 was £128.6m, or £1.38 per share (30 September 2007, £151.8m, £1.56 per share)
- Portfolio valued at £237.9m as at 31 March 2008, reflecting an equivalent yield of 7.53%
- Recurring profit from the rental business for the period of £2.7m
- IFRS loss before tax of £14.47m
- Total debt of £114m, reflecting an LTV of 46.8% and gearing of 83.9%
- £105m of undrawn facilities means that LSR is well positioned financially to take advantage of future investment opportunities

Portfolio Valuation

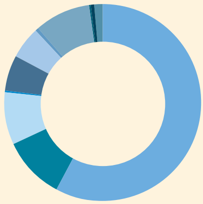
Median Property Value

Portfolio Summary

Value Range	No. of Properties	Value £m	Equivalent Yield*
£0 – £100k	62	5.0	7.64%
£101 – £200k	244	37.2	7.44%
£201 – £500k	218	67.2	7.48%
£501k – £1m	93	65.9	7.43%
£1 – £3m	32	48.9	7.72%
£3m +	3	13.7	7.71%
Total	**652**	**237.9**	**7.53%**

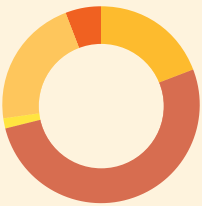
Regional Spread**

- 4.9% – East Anglia
- 3.1% – East Midlands
- 2.8% – London
- 4.2% – North
- 12.3% – North West
- 14.6% – Scotland
- 24.3% – South East
- 11.3% – South West
- 7.3% – West Midlands
- 5.5% – Wales
- 9.7% – Yorkshire and Humberside



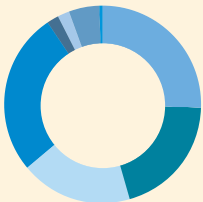
User Type**

- 58.0% – A1 – Shops
- 10.1% – A2 – Financial
- 8.6% – A3 – Cafes
- 0.3% – A4 – Pubs
- 5.8% – A5 – Takeaways
- 5.3% – B1 – Offices
- 0.5% – B2 – Industrial
- 0.2% – B8 – Storage
- 9.0% – C3 – Residential
- 0.2% – D1 – Institutional
- 0.7% – D2 – Leisure
- 1.3% – Misc



Tenant Grade**

- 19.3% – Local company
- 52.2% – Individuals
- 1.5% – Government
- 21.4% – National multiple
- 5.6% – Regional multiple



Lease Expiry profile**

- 25.7% – 0-3 years
- 19.9% – 3-6 years
- 18.9% – 6-9 years
- 25.9% – 9+ years
- 2.2% – vacant (residential)
- 2.0% – vacant (deliberate)
- 5.3% – vacant (commercial)
- 0.3% – rent guarantee

* Equivalent yield excludes the residential element which is valued at a discount to vacant possession value
** Shown as a % of rent

Average Shop Rent

Average Shop Rent

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 2008.

The period under review has seen a sharp downturn in values in the property market, particularly since the turn of the year, caused primarily by the financial crisis restricting banks' lending ability. Despite these challenging conditions, the business has performed in line with our expectations over the period and though we are not immune from the difficulties that companies in our sector are facing, our leasing activity demonstrates that tenant demand for smaller units remains robust in the current climate.

£16.9m
Annual rent income

652
Number of properties

Combined Portfolio	
Value	£237.9m
Initial yield	6.76%
Reversionary yield	7.53%
Equivalent yield*	7.53%
Rent pa	£16.9m
Market rent pa	£18.8m
Commercial value	£216.1m
Residential value	£21.8m

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

The Board has reacted swiftly to these unforeseen changes and has refocused the business to concentrate on asset management and recycling ex-growth stock, from its previous emphasis on accretive acquisitions. This repositioning has ensured that the Company remains financially sound, with prudent levels of gearing. This will enable us to take advantage of opportunities we hope to see in the next year as the property market becomes more liquid, which we believe will help us to deliver value for shareholders.

Results

Whilst it is still difficult to draw comparisons between the previous full year and half year results, due to the structural changes made to the business in the prior year, the half year results to 31 March 2008 demonstrate the progress being made.

Net rental income for the period was £8.6m, up from £5.5m at the previous half year. The adjusted profit before tax, the revaluation loss and the loss recognised on the swap agreements for the half year was £2.7m.

Revaluation and Net Asset Value

Our portfolio was revalued at 31 March 2008 at £237.9m, reflecting an equivalent yield (excluding residential element) of 7.53%. It now comprises 652 properties and produces annual rental income of £16.9m. The NAV per share is £1.38, based on 92.9m shares.

We have adopted a more cautious approach to the valuation of the residential element of our portfolio. The valuation of £21.8m has been based on 85% of vacant possession value (down from 90% at 30 September 2007), with the average value of the residential units in our portfolio being less than £63,000.

We are encouraged to record a positive revaluation of the acquisitions made in the half year. Their current market value of £9.0m reflects a 4.1% increase (excluding costs of acquisition) and reflects an equivalent yield (excluding the residential element) of 7.34%.

New Purchases

	31 March 2008	Purchase Price	Change
Value	£9.0m	£8.6m	+4.10%
Initial yield	7.35%		
Reversionary yield	7.21%		
Equivalent yield*	7.34%		

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

The existing portfolio has recorded a fall in value of 5.8%, allowing for sales, with the equivalent yield (excluding the residential element) moving out 44bps to 7.54%.

Existing Portfolio – adjusted for sales

	31 March 2008	30 Sept 2007	Change
Value	£228.9m	£242.9m	-5.77%
Initial yield	6.74%	6.56%	+0.18%
Reversionary yield	7.54%	7.13%	+0.41%
Equivalent yield*	7.54%	7.10%	+0.44%
Rent pa	£16.2m	£16.6m	-2.82%
Market rent pa	£18.1m	£18.1m	-0.08%
Commercial value	£207.4m	£220.4m	-5.89%
Residential value	£21.5m	£22.5m	-4.56%

Asset Management

Since 30 September 2007, the Company has successfully implemented a number of active asset management initiatives, which have increased our annual rental income by more than £566,000. They include:

- rent reviews carried out on 82 units, increasing the rent by £122,441 per annum (an average uplift of 12.0%, and 3.1% above Market Rent);
- leases renewed on 24 units adding a total of £51,577 per annum (an average uplift of 20.1% and 8.4% above market rent);
- the surrender and re-letting of 15 units, adding £33,628 per annum (an average uplift of 15.0% and 12.4% above market rent); and
- 35 vacant units let at a rent of £358,775 per annum (9.8% above market rent).

In line with our strategy, we continue to identify opportunities to unlock value from the under-used upper parts of some of our properties and adjacent unused land plots. During the period we successfully obtained planning consent to build two flats in the redundant space above a shop in Pontefract and submitted planning applications for the development of a further 24 flats and three retail units. In addition, we were granted three consents for a change of use from A1 (shops) to A2 (financial and professional services), one from A1 to A5 (hot food take-away) and one from offices to residential.

During the period our commercial void rate has risen to 5.3% (30 September 2007: 3.4%), which remains in line with our expectations. If the units under offer are let, the void rate will fall back to 3.95%. Residential voids have risen to 2.2% (30 September 2007: 1.5%) as units are left vacant ahead of sale.

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

Portfolio Value

31 March 2008	**£237.9m**
30 September 2007	£249.3m
28 March 2007*	£207.7m

Rent Roll

31 March 2008	**£16.9m**
30 September 2007	£17.1m
28 March 2007*	£13.8m

Number of Properties

31 March 2008	**652**
30 September 2007	632
28 March 2007*	484

Number of Tenants

31 March 2008	**2,017**
30 September 2007	1,976
28 March 2007*	1,409

* Date of published information

We have also increased the level of deliberate voids to 2.0% (30 September 2007: 0.7%) as we look to more actively exploit opportunities for change of use and reconfigure units to secure increased rents. We are taking a robust approach to debt recovery in this more uncertain market and as a result have seen an increase in bad debts during the period, which have risen to 1.9% of rent demanded on a rolling 12 month basis, up from 1.2% at 30 September 2007.

Sales and Acquisitions

Since 30 September 2007 (when the portfolio was valued at £249.3m), the Company has acquired a further 36 properties, in 36 separate transactions, for a total consideration of £8.64m. The average net initial yield of these purchases is 7.56%. Since 31 March 2008, we have purchased a further six properties for £2.58m at a yield of 8.01%. In the current uncertain market, our financial strength is allowing us to secure a number of deals where we are not the highest bidder.

In line with our stated strategy of selling ex-growth and lower yielding properties we have sold 17 properties, for £6.22m, at an average net initial yield of 5.86% (30 September 2007 valuation £6.20m).

Similarly, the Company has sold two flats above retail units for £0.15m (30 September 2007: valuation £0.13m), and the previously unused upper floors of a shop in Goole for £0.13m having obtained planning permission for the development of five residential flats.

Since the period end, we have sold a further eight properties for £2.28m, which is encouragingly at a level higher than their 31 March 2008 valuation of £2.22m. In addition, the Company has sold 34 flats for £1.75m above their 31 March book value of £1.59m, since the period end.

As a result of these acquisitions and sales, at 31 March 2008, the Company had a portfolio of 652 properties comprising 2,017 letting units.

Financing

At 31 March 2008 the Company's total bank borrowing stood at £114m and comprised a fixed rate loan from Barclays of £69m and an economically hedged floating rate loan with HSBC of £45m. These facilities are repayable in full in 2016. The Group has an additional committed and undrawn long-term facility of £105m with HSBC. A short-term facility of £10m from RBS has now lapsed. In addition to being 100% economically hedged on the HSBC loan, the Company has further interest rate swaps totalling £35m. The changes in the fair value of these swaps are reflected in the income statement. LSR's blended interest rate for loans that have been drawn and committed, at the current loan to value ratio, up to the limit of the current hedging level, is 5.69% for over eight years.

The current loan to value ratio is 46.8%. The Group holds £35.6m of properties which are not charged under either facility. Neither of the facilities has default provisions relating to loan to value covenants. The interest cover ratios, based on rental income on each loan are 115% and 120%. The interest cover for the Group based on rental income at 31 March 2008 was 275%.

Dividend

The Board has reviewed the dividend policy in light of the unforeseen market changes. LSR has deliberately slowed the pace of acquisitions due to the turbulence in the financial markets in order to maintain modest gearing levels and preserve financial flexibility, which will position us to take advantage of future opportunities. The Company, therefore, has robust finances with modest gearing and this will allow us to make accretive acquisitions when the market improves.

It remains our firm intention to continue to pay a high level of dividend based on recurring EPS. While we could pay the full dividend that we proposed at the time of our IPO, we believe that over-distributing would be detrimental to our future flexibility and believe that it is in the best interest of shareholders, especially in the current economic climate, to re-base the dividend so that it adequately reflects the current trading environment and offers the potential for growth.

Following this review of the dividend policy and in light of these new circumstances, the Board now intends to pay 100% of recurring future profits as a dividend. The Board believes that this will provide the basis for a sustainable and progressive dividend. We are therefore pleased to announce an interim dividend of 2.875p per share.

The interim dividend will be paid as a Property Income Dividend (PID). The PID is subject to the deduction of withholding tax at the basic rate of tax (20% for 2008–2009). Certain shareholders can claim exemption from the withholding of tax on their PID. In order to claim exemption, should you be eligible, a form can be obtained from the Company's website which should be submitted to the Company's Registrars. The allocation of future dividends between PID and non-PID will vary.

The shares will go ex-dividend on 4 June 2008 with a record date of 6 June 2008 and payment date of 30 June 2008.

Share Buybacks

Since 30 September 2007, the Company has undertaken share buybacks totalling 4,600,000 ordinary shares at a weighted average price per share of £1.2137. These shares were placed in Treasury. In January 2008, 25,000 shares were transferred to the Employee Benefit Trust for the purpose of satisfying LTIP awards.

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

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

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 2007. The principal risks are around property and financing.

Given the continuing uncertain climate surrounding property valuations, the independent valuation to be completed at 30 September 2008 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.

Outlook

As stated in our Interim Management Statement on 6 February 2008, we have adapted our business model to put the Company in the best position to operate in and take advantage of a changing marketplace. Investment activity in the local shopping market has slowed significantly over the last couple of months, which has been mirrored in the commercial auction market where the number of lots sold has fallen. While this slowdown should provide us with more accretive acquisition opportunities, our market is highly fragmented and many vendors, particularly away from the London market, continue to hold out for strong prices. While we are therefore only able to identify value selectively, resilient local markets have allowed us to sell a number of properties at keen yields.

In the meantime, we will continue to create value for our shareholders through our active asset management programme, which is currently successfully delivering shareholder value, together with selective purchases, share buybacks where appropriate and the sale of our lower yielding ex-growth properties.

We believe that maintaining close control over our level of gearing in the current market is fundamental to ensuring the long-term success of our business. Exceptional and unanticipated adverse conditions in credit markets have led to a further downturn in the investment market in early 2008 and an as yet unknown impact on the wider economy. As a result it has become clear to the Board that it would be imprudent to commit to growing the portfolio aggressively in the short term. However, we are still taking advantage of opportunities for accretive acquisitions as they arise, such as the 36 made during the period.

The Company is in a strong financial position as a result of early action taken by our management team to ensure that our gearing remains at appropriate levels and that we have ample financing in place to take advantage of opportunities as they arise. Whilst the property market is facing more difficult times, our diverse portfolio of high yielding properties continues to perform as expected. Additionally, we continue to be encouraged that our active asset management programmes are creating value – as evidenced by the rental uplifts we have achieved through lettings, lease renewals and rent reviews.

Grahame Whateley
Chairman
27 May 2008

Mike Riley
Joint CEO
27 May 2008

Nick Gregory
Joint CEO
27 May 2008

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 27 May 2008.

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 2008, which comprises the balance sheet, consolidated income statement, statement of total recognised income and expense, 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 IFRS's 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 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Birmingham
Chartered Accountants
Registered Auditor

27 May 2008

Consolidated Income Statement

for the six months ended 31 March 2008

	Note	**Unaudited Six months ended 31 March 2008 £000**	Unaudited Six months ended 31 March 2007 £000	Audited Year ended 30 September 2007 £000
Gross rental income		**8,589**	5,534	13,101
Property operating expenses		**(1,170)**	(297)	(1,642)
Net rental income		**7,419**	5,237	11,459
Profit on disposal of investment properties		**9**	52	83
(Loss)/gain from change in fair value of investment properties		**(14,639)**	2,294	(6,424)
Administrative expenses		**(1,569)**	(993)	(2,573)
Net other (expenses)/income		**(114)**	3	25
Operating (loss)/profit before goodwill and net financing costs		**(8,894)**	6,593	2,570
Negative goodwill arising on acquisition		**–**	–	2,046
Operating (loss)/profit before net financing costs		**(8,894)**	6,593	4,616
Financing income	3	**174**	282	1,302
Financing expenses	3	**(5,750)**	(6,897)	(10,180)
Operating loss after financing costs before taxation		**(14,470)**	(22)	(4,262)
Taxation	4	**–**	(516)	(3,799)
Loss for the period attributable to equity holders of the Company		**(14,470)**	(538)	(8,061)
Basic and diluted loss per share	9	**(15.1)p**	(25.3)p	(20.0)p

Consolidated Statement of Recognised Income and Expense

for the six months ended 31 March 2008

	Unaudited Six months ended 31 March 2008 £000	Unaudited Six months ended 31 March 2007 £000	Audited Year ended 30 September 2007 £000
Net income recognised directly in equity	**–**	–	–
Loss for the period	**(14,470)**	(538)	(8,061)
Total recognised income and expense for the period attributable to equity holders of the Company	**(14,470)**	(538)	(8,061)

Consolidated Balance Sheet
as at 31 March 2008

	Note	**Unaudited 31 March 2008 £000**	Unaudited 31 March 2007 £000	Audited 30 September 2007 £000
Non-current assets				
Plant, equipment and leasehold improvements		**227**	39	73
Investment properties	6	**239,992**	209,177	247,608
Deferred tax asset		**–**	1,713	–
Derivative financial instruments		**51**	425	1,034
Total non-current assets		**240,270**	211,354	248,715
Current assets				
Derivative financial instruments		**207**	220	553
Trade and other receivables		**5,265**	6,484	4,829
Investment properties held for resale		**595**	-	3,081
Cash		**5,285**	4,081	5,735
Total current assets		**11,352**	10,785	14,198
Total assets		**251,622**	222,139	262,913
Non-current liabilities				
Interest bearing loans and borrowings	7	**(113,233)**	(195,026)	(98,149)
Deferred tax liabilities		**–**	(3,014)	–
Derivative financial instruments		**(1,137)**	(46)	–
Finance lease liabilities		**(2,514)**	(1,275)	(1,353)
Total non-current liabilities		**(116,884)**	(199,361)	(99,502)
Current liabilities				
Derivative financial instruments		**(93)**	–	–
Bank overdraft		**(13)**	(33)	(115)
Interest bearing loans and borrowings	7	**–**	(14,235)	–
Trade and other payables		**(6,041)**	(5,679)	(11,523)
Total current liabilities		**(6,147)**	(19,947)	(11,638)
Total liabilities		**(123,031)**	(219,308)	(111,140)
Net assets		**128,591**	2,831	151,773
Equity				
Issued capital	8	**20,098**	800	20,098
Share premium	8	**–**	–	–
Reserves	8	**3,773**	–	3,773
Retained earnings	8	**104,720**	2,031	127,902
Total attributable to equity holders of the Company		**128,591**	2,831	151,773

Consolidated Statement of Cash Flows

for the six months ended 31 March 2008

	Note	**Unaudited Six months ended 31 March 2008 £000**	Unaudited Six months ended 31 March 2007 £000	Audited Year ended 30 September 2007 £000
Operating activities				
Loss for the period		**(14,470)**	(538)	(8,061)
Adjustments for:				
Loss/(gain) from change in fair value of investment properties		**14,639**	(2,294)	6,424
Net financing costs		**5,576**	6,615	8,878
Profit on disposal of investment properties		**(9)**	(52)	(83)
Depreciation		**13**	–	–
Employee share options		**89**	–	–
Negative goodwill arising on acquisition		**–**	–	(2,046)
Corporation tax expense		**–**	516	3,799
		5,838	4,247	8,911
Decrease/(increase) in trade and other receivables		**2,645**	(2,922)	(1,175)
(Decrease)/increase in trade and other payables		**(115)**	642	1,058
		8,368	1,967	8,794
Interest paid		**(2,937)**	(5,905)	(8,225)
Interest received		**257**	282	786
Corporation tax paid		**(4,573)**	–	–
Net cash flows from operating activities		**1,115**	(3,656)	1,355
Investing activities				
Acquisition of subsidiary, net of cash acquired		**–**	–	(6,700)
Proceeds from sale of investment properties		**3,268**	975	1,139
Acquisition of investment properties		**(9,715)**	(65,560)	(101,289)
Cash flows from investing activities		**(6,447)**	(64,585)	(106,850)
Financing activities				
(Costs)/proceeds of buy back/issue of share capital	8	**(6,903)**	–	153,150
Repayment of borrowings		**–**	(101,606)	(251,966)
New borrowings		**15,000**	171,052	207,023
Dividends paid		**(3,176)**	–	–
Payment of finance lease liabilities		**63**	43	108
Cash flows from financing activities		**4,984**	69,489	108,315
Net (decrease)/increase in cash		**(348)**	1,248	2,820
Cash at beginning of period		**5,620**	2,800	2,800
Cash at end of period		**5,272**	4,048	5,620

Notes to the Half Year Financial Statements
for the six months ended 31 March 2008

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 2007.

The comparative figures for the financial year ended 30 September 2007 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditors and delivered to the Registrar of Companies. The report of the Auditors was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2 Segmental Reporting

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

3 Net Financing Costs

	Six months ended 31 March 2008 £000	Six months ended 31 March 2007 £000	Year ended 30 September 2007 £000
Interest receivable	**174**	282	786
Movement in fair value of derivative financial instruments	**–**	–	516
Financial income	**174**	282	1,302
Bank loan interest	**(3,128)**	(4,307)	(7,606)
Other loan interest	**–**	(2,074)	(2,466)
Head rents treated as finance leases	**(63)**	(43)	(108)
Movement in fair value of derivative financial instruments	**(2,559)**	(473)	–
Financial expenses	**(5,750)**	(6,897)	(10,180)
Net financing costs	**(5,576)**	(6,615)	(8,878)

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 (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.

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

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.

5 Dividends

On 3 January 2008 a dividend in respect of the year ended 30 September 2007 of 3.419p per share was paid to shareholders on the register at 14 December 2007. Under the REIT legislation the Company's dividends are divided into two components, known as PID and non-PID. This dividend paid was wholly classified as a non-PID.

6 Investment Properties

	Total £000
At 1 October 2007	247,608
Additions	10,877
Disposals	(3,259)
Fair value adjustments	(14,639)
Investment properties held for resale	(595)
At 31 March 2008	**239,992**

Investment properties held for resale at 31 March 2008 are shown separately as current assets as required by IFRS 5.

The investment properties have all been revalued to their fair value at 31 March 2008.

All new properties acquired since 30 September 2007, together with a random sample of 25% of the portfolio have been valued by Allsop LLP, a firm of 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.

6 Investment Properties continued

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

A reconciliation of the portfolio valuation at 31 March 2008 to the total value for investment properties given in the consolidated balance sheet is as follows:

	31 March 2008 £000	31 March 2007 £000	30 September 2007 £000
Valuation	**237,869**	207,675	249,296
Items not revalued	**204**	123	40
Investment properties held for resale before costs of disposal	**(595)**	–	(3,081)
Head leases treated as finance leases under IAS 17	**2,514**	1,379	1,353
Total per consolidated balance sheet	**239,992**	209,177	247,608

7 Interest-bearing Loans and Borrowings

	31 March 2008 £000	31 March 2007 £000	30 September 2007 £000
Non-current liabilities			
Secured bank loans	**113,233**	149,442	98,149
Other loans	**–**	45,584	–
	113,233	195,026	98,149
Current liabilities			
Current portion of secured bank loans	**–**	14,235	–

All loans are repayable in one instalment in 2016.

8 Capital and Reserves

Reconciliation of Movement in Capital and Reserves

	Share capital £000	Reserves £000	Retained earnings £000	Total £000
At 1 October 2007	20,098	3,773	127,902	151,773
Own shares acquired	–	–	(5,625)	(5,625)
Cancellation of share premium	–	–	–	–
Share-based payments	–	–	89	89
Dividends	–	–	(3,176)	(3,176)
Total recognised income and expense	–		(14,470)	(14,470)
At 31 March 2008	**20,098**	**3,773**	**104,720**	**128,591**

On flotation on 2 May 2007, the Company raised some £160m (before costs) on the issue of share capital. Such proceeds were allocated between share capital and share premium. Subsequently the Company applied to the courts to have the share premium converted to a distributable reserve and this was effected during the year to 30 September 2007.

9 Earnings per Share

Basic Earnings per Share

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

Loss Attributable to Ordinary Shares

	Six months ended 31 March 2008 £000	Six months ended 31 March 2007 £000	Year ended 30 September 2007 £000
Loss for the period	**(14,470)**	(538)	(8,061)

Weighted Average Number of Shares

	Six months ended 31 March 2008 Number 000	Six months ended 31 March 2007 Number 000	Year ended 30 September 2007 Number 000
Issued Ordinary Shares 1 October	**97,539**	800	800
Effect of sub-division of shares	**–**	1,324	1,324
Effect of own shares held	**(1,796)**	–	(134)
Effect of shares issued	**–**	–	38,383
Weighted average number of Ordinary Shares	**95,743**	2,124	40,373

Diluted Earnings per Share

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

10 Net Asset Value per Share

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

	31 March 2008 Number 000	31 March 2007 Number 000	30 September 2007 Number 000
Number of shares in issue	**100,493**	800	100,493
Less shares held in treasury	**(7,554)**	–	(2,954)
	92,939	800	97,539

	31 March 2008 £000	31 March 2007 £000	30 September 2007 £000
Net assets per consolidated balance sheet	**128,591**	2,831	151,773
Net asset value per share	**£1.38**	£3.53	£1.56

Adjusted Net Asset Value per Share

	31 March 2008 £000	31 March 2007 £000	30 September 2007 £000
Net assets per consolidated balance sheet	**128,591**	2,831	151,773
Fair value of fixed rate loan	**371**	3,472	2,962
	128,962	6,303	154,735
Net asset value per share	**£1.39**	£7.88	£1.59

11 Financial Instruments and Risk Management

The Group does not speculate in treasury products. It uses these products to minimise the exposure to interest rate fluctuations. The Group borrows from UK banks at fixed and floating rates of interest based on LIBOR and uses hedging mechanisms to achieve an interest rate profile where the majority or borrowings are fixed or capped. The Group's policy is to hedge between 60% and 100% of its interest rate exposure. At 31 March 2008, 100% (30 September 2007: 100% and 31 March 2007: 99.2%) of the Group's net debt was fixed or protected with a further £35,278,000 of swaps in place to cover future debt as its drawn down.

11 Financial Instruments and Risk Management continued

Derivative financial instruments are shown in the consolidated balance sheet as follows:

	At 1 October 2007 £000	Mark to market £000	**At 31 March 2008 £000**
Non-current assets	1,034	(983)	**51**
Current assets	553	(346)	**207**
Non-current liabilities	–	(1,137)	**(1,137)**
Current liabilities	–	(93)	**(93)**
Net liability	1,587		**(972)**
Amount charged to income statement		(2,559)	

The Group's interest rate swaps in place at 31 March 2008 did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

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

Maturity date	Amount £000	Rate %	At 30 September 2007 £000	Movements in income statement £000	**At 31 March 2008 £000**
30 April 2013	54,000	5.06 – 5.62	582	(1,525)	**(943)**
29 July 2016	45,000	5.05	–	(151)	**(151)**
31 January 2017	26,178	5.4476	1,005	(883)	**122**
			1,587	(2,559)	**(972)**

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

Fair Value	**31 March 2008 £000**	31 March 2007 £000	30 September 2007 £000
Fixed rate loan			
Carrying value of loan	**68,825**	94,909	68,775
Mark to market adjustment	**(371)**	(3,472)	(2,962)
Fair value	**68,454**	91,437	65,813

Notes to the Half Year Financial Statements
for the six months ended 31 March 2008

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

13 Capital Commitments
At 31 March 2008 the Group had contracted capital expenditure for which no provision has been made within these financial statements of £189,000 (30 September 2007: £272,000 and 31 March 2007: £1,225,000).

Outlook

This report may contain forward-looking statements based on current expectations of and assumptions and forecasts made by the management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which speak only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

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