the **Local Shopping** reit plc

MAKING PROPERTY WORK

Half Year Report 31 March 2011

Welcome to **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 also look to enhance shareholder returns by combining our asset management skills with the complementary interests and resources of joint venture partners.

the **Local Shopping** reit plc

London Stock Exchange LISTED PREMIUM

Highlights

Financial Highlights

- Recurring profit* for the period of £1.6m or 2.0 pence per share (31 March 2010: £1.4m or 1.7 pence per share)
- Gross rental income of £8.1m (31 March 2010: £7.5m)
- Net Asset Value ("NAV") of the Company as at 31 March 2011 increased 1.6% to £58.6 million or £0.71 per share (30 September 2010: £57.6m or £0.70 per share)
- Adjusted NAV of the Company at 31 March 2011 excluding liabilities arising from derivative financial instruments decreased to £65.0m or £0.79 per share (30 September 2010: £66.8m or £0.81 per share)

* as defined on page 5

- Portfolio value £189.6m as at 31 March 2011, reflecting an equivalent yield of 8.82% (30 September 2010: £192.9m, 8.88% equivalent yield)
- Robust balance sheet:
    - Debt of £132.5m, reflecting an LTV of 67.4%
    - No refinancing due until 2016
    - £44.4m of undrawn facilities and an additional £27.1m of debt free properties, enhancing the Company's firepower and flexibility to react to acquisition opportunities as they arise
- IFRS profit before tax of £2.5m (31 March 2010: £7.5m)
- Interim dividend of 1.9 pence per share – payable as a Property Income Distribution on 30 June 2011 (31 March 2010: 1.7 pence per share)

Operational Highlights

- Joint venture established with Pramerica Real Estate Investors (as announced on 29 November 2010) to invest £100m in the UK neighbourhood / convenience retail sector. A retail parade in Stanwell, Middlesex was purchased in the period for £1.62m
- Active asset management, including a flexible approach to leasing, led to a 20 basis points reduction in the overall void rate to 11.1% compared to 11.3% at 30 September 2010 and meaningfully below the 11.9% reported as at 31 March 2010:
    - 66 new lettings secured generating an annual rental income of £634,290 (48 units let at £444,964 per annum during the six month period to 31 March 2010)
    - Rent reviews completed on 102 units, increasing rental income by £58,207 per annum, representing an average uplift of 4.3%, and 8.1% above Market Rent
    - Rental deposits increased to £998,000 or over 24% of our quarterly rent roll (30 September 2010: £940,000; 31 March 2010: £934,000)
    - Four out of five of the recently completed flat conversions let at a combined rent of £26,100 per annum, with the remaining flat on the market for sale
    - Bad debt write-offs and provisions fell to £382,281 (compared to £437,881 for the six months to 31 March 2010)
- Highly selective acquisitions and disposals programme maintained:
    - Purchased five properties for £1.58m, at an average yield of 7.15%, four of which were convenience stores let on long leases to Tesco and Martin McColl, providing good growth potential through five yearly fixed or RPI linked rent reviews
    - In line with our stated strategy to sell ex-growth properties, nine properties sold since 30 September 2010 for a total of £2.80m, at an average yield of 7.64%. These sales were at a 4.9% premium to their September 2010 valuation before costs of sale
    - Four flats sold for £0.36m, 40.1% above valuation.

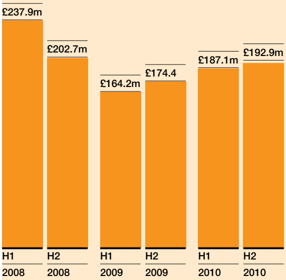
Post Period Events

- On behalf of the Pramerica joint venture, a neighbourhood centre in Deysbrook, Liverpool has been acquired for £0.85m and contracts exchanged to acquire a parade in Connah's Quay for £2.88m. In addition, a portfolio of four properties in Scotland is currently being acquired from receivers and a further two acquisitions, totalling £5.40m are in solicitors' hands
- Letting pipeline remains healthy, with 25 units under offer, as at 31 March 2011, at a combined rental of £327,230 per annum
- Three more flats completed and a further 14 flats are under construction since the period end
- Contracts exchanged to sell a property yielding 6.98% in Rutherglen for £0.5m, 11.1% above valuation.

LSR at a Glance

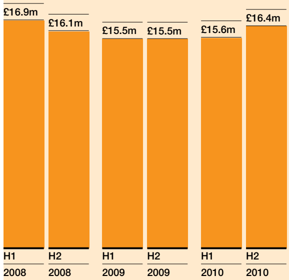
Portfolio Value

£189.6m
(FY 2010: £192.9m)

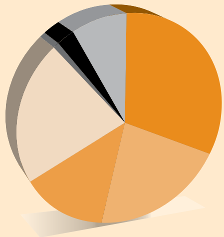


Portfolio rent p.a.

£16.2m
(FY 2010: £16.4m)

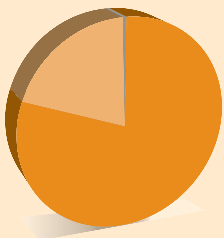


Market Rent



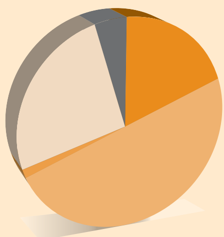
Lease Expiry Profile

32.5%	0-3 years
21.1%	3-6 years
14.9%	6-9 years
20.4%	9+ years
0.9%	Vacant (residential)
2.4%	Vacant (deliberate)
7.8%	Vacant (commercial)



Tenure

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



Tenant Grade

16.1%	Local company
54.0%	Individual
1.4%	Government
23.7%	National multiple
4.8%	Regional multiple

"The Company has established a reputation for being able to add value to smaller commercial properties located throughout the UK. We are pleased to report that we continue to achieve strong results by applying these skills to our diverse portfolio."

Portfolio Value

31 March 2011	**£189.6m**
30 September 2010	£192.9m
31 March 2010	£187.1m

Rent Roll

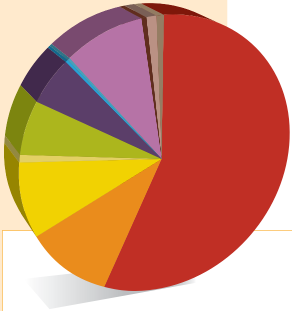
31 March 2011	**£16.2m**
30 September 2010	£16.4m
31 March 2010	£15.6m

Number of Properties

31 March 2011	**650**
30 September 2010	655
31 March 2010	633

Number of Tenants

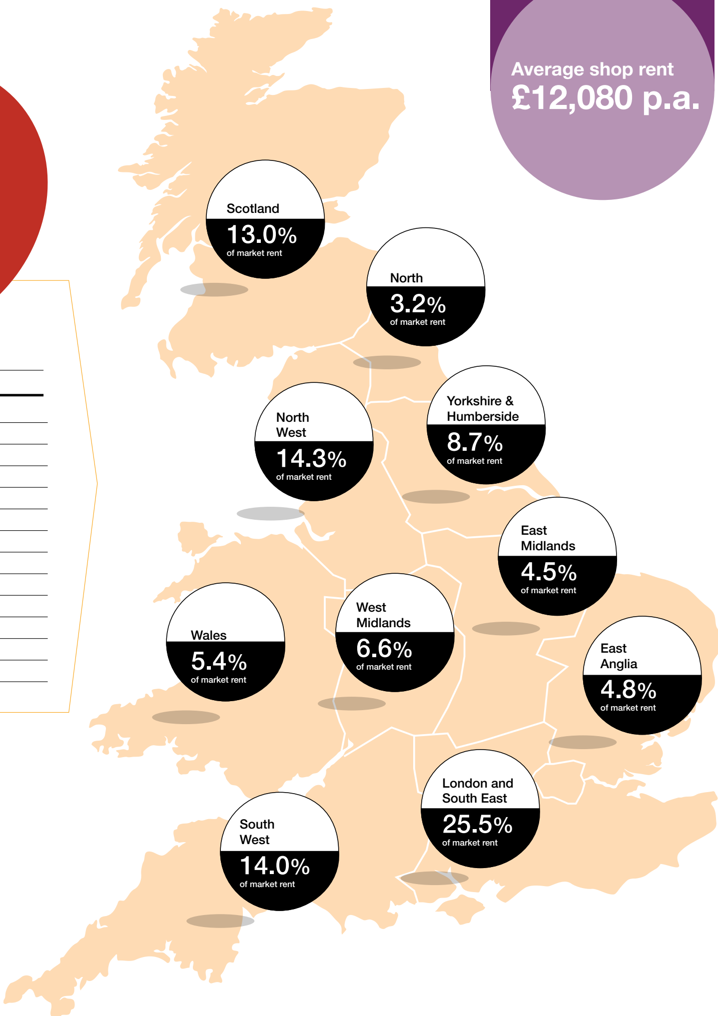
31 March 2011	**2,021**
30 September 2010	2,075
31 March 2010	2,011



Planning Use

■	58.0%	A1 Shops
■	10.7%	A2 Financial
■	8.9%	A3 Cafés/restaurants
■	0.6%	A4 Pubs
■	5.9%	A5 Takeaways
■	4.6%	B1 Offices
■	0.3%	B2 Industrial
■	0.2%	B8 Storage
■	8.7%	C3 Residential
■	0.5%	D1 Institutional
■	1.0%	D2 Leisure
■	0.6%	Miscellaneous

Geographical Spread



Did you know?

Our average shop rent is only £12,080 p.a. or £11.25 per sq. ft. Our rents remain affordable which is demonstrated by our continued success in letting vacant units.

Average shop rent
£12,080 p.a.

Chairman's Statement and Joint Chief Executive Officers' Review

The Company has continued to perform well against a difficult and uncertain economic backdrop and we are pleased to announce strong ongoing operational progress during the six months to 31 March 2011. In addition, the establishment of our joint venture with Pramerica Real Estate Investors marks an important step in the implementation of our strategy to grow revenue by applying our specialist asset management skills in the management of third party assets and joint ventures.

Market Context

Within the investment market we continue to believe that low interest rates are supportive of current valuation levels. However, with little bank debt available, further near term yield compression remains highly unlikely. Within our sub-sector, supply of investment product remains limited and there is often a mismatch between the pricing aspirations of buyers and sellers. In this rather lacklustre market, private investors remain active, albeit selective, in their search for income producing assets. However, the low interest rate environment is supportive of occupiers acquiring property and we continue to see a steady stream of enquiries from tenants within our portfolio who wish to purchase rather than rent.

Within the occupier market there can be no denying that conditions are challenging and we retain our cautious outlook. However, despite the tough retail environment, the business has performed in line with our expectations over the past six months. In marked comparison to the more traditional 'high street' market, tenant demand for smaller 'local shopping' units remains resilient. With an average shop rent of £11.25 per sq ft, or £12,080 per annum, our properties remain affordable, as demonstrated by the 66 new lettings completed during the period at a rent of £634,290 per annum.

While it is commonly accepted that the banking sector will need to deleverage substantially over the coming years, there continues to be little sign of a meaningful increase in the volume of distressed sales coming to the market where borrowers are in default. The inability of lenders to make substantial loan write-downs is leading them to look for longer-term asset management led solutions for the distressed properties and portfolios on their books. With our nationwide coverage, extensive network of local agents and specialist asset management skills, we are well placed to assist lenders to implement such strategies, building on the mandates we have already received to date.

Our continuing strong 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, both within our own portfolio and the assets we own and manage with our partners and third parties.

Results

The IFRS reported profit before tax for the period was £2.5m (£7.5m for the six months to 31 March 2010 and £1.8m for the year to 30 September 2010).

Gross rental income for the six month period was £8.1m, an increase of 7.2% compared to 31 March 2010 (£7.5m). This is largely as a result of the acquisitions completed in the second half of the 2010 financial year. More sales than acquisitions have been completed in the first half of the 2011 financial year so the rental income in the second half of the year may decrease.

While like-for-like rental growth within the portfolio was flat over the period, net rental income has increased by £0.5m to £6.9m, compared to the corresponding period last year, as a result of the increased rent from acquisitions. Property costs have remained stable overall although, within this, bad debts have fallen while costs associated with lettings have increased. The loss of empty rates relief will impact on the business in the second half of the year although we are taking measures to mitigate this additional cost. Administrative costs continue to be well controlled but have risen following an increase in the undrawn commitment fee on our HSBC loan to 60 basis points from 30 September 2010.

The recurring profit from the core portfolio for the period is £1.6m which represents 2 pence per share.

	31 March 2011	31 March 2010	30 Sept 2010
IFRS reported profit	2,470	7,458	1,815
Loss/(gain) on movement in fair value of the portfolio	1,914	(7,324)	(2,667)
Movement in the fair value of the interest rate swaps held	(2,689)	1,244	3,789
(Profit)/loss on sale of investment properties	(102)	12	(7)
Loss on disposal of fixed assets	–	4	4
Net other expenses	33	–	–
Recurring profit	1,626	1,394	2,934

The calculation remains consistent with that of previous years except for the add back of net other expenses. In the current period, this largely arises from the costs incurred to date on the establishment of the new joint venture. At the period end only one property, Stanwell, had been purchased (having been transferred from the Company's portfolio) so returns from this have been eliminated by the set up costs incurred. As these costs will provide benefits over the life of the venture it is not appropriate to include them in the recurring profit calculation at this stage.

Dividend

We are pleased to confirm that it is our policy to pay 100% of recurring profits as a dividend. The Board has decided to distribute an interim dividend of 1.9 pence 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 2011/12). 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 2011. The shares will become ex-dividend on 8 June 2011 with a record date of 10 June 2011.

Revaluation and Net Asset Value

Our portfolio was revalued at £189.6m as at 31 March 2011, reflecting an equivalent yield (excluding the residential element) of 8.82% (30 September 2010: £192.9m, 8.88% equivalent yield). As at 31 March 2011, it comprised 650 properties with an annual rental income of £16.2m.

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

Combined Portfolio

Value	£189.6m
Initial Yield ("IY")	8.07%
Reversionary Yield ("RY")	8.79%
Equivalent Yield ("EY")*	8.82%
Rent per annum	£16.2m
Market Rent per annum	£17.5m

Value Range	No. of Properties	Value £m	EY*
£0 – £100k	150	11.4	9.34%
£101 – £200k	242	36.2	8.85%
£201 – £500k	158	51.2	8.87%
£501k – £1m	73	48.8	8.73%
£1 – £3m	25	35.9	8.75%
£3m +	2	6.1	8.33%
Total	650	189.6	8.82%

The table above illustrates the range of property values throughout the portfolio. The average property value is £292,000 and the median is £170,000. The residential element of the portfolio has been valued at £17.5m, based on 85% of vacant possession value. The average value of the residential units in our portfolio remains low at a little over £55,000.

The value of the existing portfolio was broadly unchanged over the period, recording a small 0.1% fall in value, allowing for sales, with the equivalent yield (excluding the residential element) showing little change at 8.83% (30 September 2010: 8.89%).

Existing Portfolio – adjusted for sales	31 Mar 11	30 Sep 10	Change
Value	£188.0m	£188.3m	–0.12%
IY	8.07%	8.03%	+4bp
RY	8.79%	8.74%	+5bp
EY*	8.83%	8.89%	+6bp
Rent pa	£16.0m	£16.0m	+0.02%
Market Rent pa	£17.5m	£17.5m	–0.37%

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

Despite little movement in the value of the portfolio, the NAV per share has risen 1.6% to £58.6m or £0.71 per share, based on 82.5m shares in issue, excluding those held in Treasury (30 September 2010: £57.6m, £0.70 per share). This increase is largely due to a £2.7m (£0.03 per share) gain in the fair value of the Group's interest rate swaps during the period. The adjusted NAV of the Company as at 31 March 2011, excluding liabilities arising from derivative financial instruments, fell to £65.0m or £0.79 per share (30 September 2010: £66.8m, £0.81 per share).

The Group held £8.3m of cash at the end of the period, of which £3.1m was held in substitution accounts to use for property purchases.

Acquisitions and Sales

During the period we maintained our highly selective approach to acquisitions, focusing our efforts on securing attractively priced properties with sustainable rents and the opportunity for growth through fixed or RPI linked rent reviews or active asset management.

Since 30 September 2010, we have purchased five properties for £1.58m, at an average yield of 7.15%, although only one of these was purchased during the 2011 calendar year (for £0.15m). The four purchases during 2010 were all convenience stores let on long leases to Tesco and Martin McColl and provide good growth potential through five yearly fixed or RPI linked rent reviews.

In line with our stated strategy to sell ex-growth properties, we have sold nine properties since 30 September 2010 for a total of £2.80m, at an average yield of 7.64%. These sales were at a 4.9% premium to their September 2010 valuation before costs of sale. We have also exchanged contracts to sell a property yielding 6.98% in Rutherglen for £0.5 million, 11.1% above valuation. In addition, a property in Stanwell was transferred into our newly formed joint venture with Pramerica Real Estate Investors at its £1.62m valuation. During the period we also sold four fully let flats for £0.36m, at a yield of 5.89%. These sales were at a substantial 40.1% premium to their September 2010 valuation.

Asset Management

Against a challenging economic backdrop, we recognise the importance of working our existing assets hard. Our success in applying our property skills to the management of our diverse portfolio has led to strong results over the period.

During the half year the Company has maintained its flexible approach to leasing. We believe it is important when letting units to independent traders to concentrate on maximising cashflow. As a result, we prefer to deal with letting incentives by way of stepped rents rather than offering extended rent free periods or capital contributions in an attempt to support unsustainable rental values. This approach has resulted in the letting of 66 units at a total rent of £634,290 per annum, significantly ahead of the 48 units let at £444,964 per annum during the six month period to 31 March 2010. Overall these lettings were agreed at a level 2.1% above Market Rent. Of these lettings, 18 incorporated stepped rental increases the benefits of which have not been reflected in our comparison. These lettings were at an initial rent of £192,400 per annum rising to £219,750 per annum over the first three years of their leases, compared with a Market Rent of £205,690 per annum. The remaining 48 units were let at 6.3% above Market Rent. The letting pipeline also remains healthy, with 25 units under offer, as at 31 March 2011, at a combined rental of £327,230 per annum.

In addition, we completed rent reviews on 102 units, increasing rental income by £58,207 per annum, representing an average uplift of 4.3%, and 8.1% above Market Rent. We also renewed 25 leases, increasing rental income by £10,483 per annum at an average uplift of 3.9% and just 0.2% below Market Rent. Lease extensions on flats in Harrow and Worcester secured a further £10,445 in premiums from the tenants.

In our effort to extract additional cashflow from our assets, we continue to look to maximise the contribution from under-used and poorly configured properties. Since 30 September 2010, we have secured planning consent for 13 flats and three retail units, as well as for the sub-division of two properties to provide an additional four smaller retail units. We will also build out flats where we can achieve an acceptable rental yield following conversion. During the period we completed five such flat conversions, four of which are now let at a combined rent of £26,100 per annum with the remaining flat on the market for sale. Since the half year end, we have completed three more flats and a further 14 flats are under construction.

We have also obtained four change of use consents on vacant retail units from class A1 (shops) and class D1 (institutional) to higher value uses which will improve their letting prospects.

In addition, we have purchased the freehold interests in two properties where we previously owned long leasehold interests and extended the lease of a property in Hastings with a sub 50 year leasehold interest (in exchange for an improved ground rent) which has increased its value by 4.6%.

Void Rate

Despite the difficult retail climate, our success in managing tenant default and leasing vacant property over the period has led to a twenty basis point fall in the overall void rate to 11.1% (30 September 2010: 11.3%). Encouragingly, this is meaningfully below the 11.9% overall void rate reported as at 31 March 2010.

Within this, the core commercial void rate has fallen from 8.0% to 7.8%. The completion of a number of flat refurbishments towards the end of the period has led to a small rise in residential voids to 0.9% (30 September 2010: 0.8%) while deliberate voids have fallen to 2.4% (30 September 2010: 2.5%).

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

	31 Mar 11	31 Jan 11	30 Sep 10	31 Jul 10	31 Mar 10
Vacant – Commercial	7.8%	8.0%	8.0%	8.0%	8.2%
Vacant – Deliberate	2.4%	2.4%	2.5%	2.8%	2.7%
Vacant – Residential	0.9%	0.9%	0.8%	0.9%	1.0%
Total	11.1%	11.3%	11.3%	11.7%	11.9%

The challenging trading conditions faced by our tenants have inevitably led to some tenant defaults. 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 cashflow. Our continuing success in letting vacant units has allowed us to follow this approach more actively over recent months and take back units before tenant arrears begin to build significantly. As a result, during the half year, bad debt write-offs and provisions fell to £382,281 (compared to £437,881 for the six months to 31 March 2010 and £918,452 for the year to 30 September 2010).

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 2011, we held deposits totalling approximately £998,000, or over 24% of our quarterly rent roll, an increase over the approximately £940,000 held at 30 September 2010. This provides us with a measure of protection against tenant default which is not generally available when letting units to national retailers.

Financing

The Group has four loan facilities of which two are fully drawn. All of them are repayable in a single instalment in 2016. As at 31 March 2011, borrowings totalled £132.5m (30 September 2010: £132.5m), reflecting an LTV of 67.4%, with a further £44.4m available to borrow as follows:

Loan	Facility £m	Loan Outstanding £m	Undrawn £m	LTV Covenant
Barclays Fixed Rate Loan	69.2	69.2	–	No
HSBC Fully Drawn Term Loan	47.7	47.7	–	No
HSBC Term Loan	25.0	10.5	14.5	Yes
HSBC Revolver Facility	35.0	5.1	29.9	Yes
		132.5	44.4	

The average cost of debt, including margin, is 5.8%. An undrawn commitment fee of 60 basis points is payable on the £44.4m undrawn facilities.

The Group holds £27.1m of property which does not have any debt secured against it. This, together with the undrawn facilities, provides LSR with the flexibility to exploit future opportunities as they arise.

Working with Banks

A key element of our strategy for growth is the management of distressed assets. As previously reported, we are already managing a small mixed portfolio of properties in the North-West for a large UK bank and have entered into a legal agreement with another lender to manage the smaller investment properties it acquires when it has to take back control of assets from its distressed borrowers. Discussions are ongoing with a number of other lenders who recognise the value of our business model, encompassing nationwide coverage, an extensive network of local agents and our intensive and specialist asset management skills.

Joint Ventures

A second key element of our strategy is to seek to grow the business through the creation of joint ventures. During the period, and as announced on 29 November 2010, we entered into a joint venture agreement with Pramerica Real Estate Investors Limited ("Pramerica") to invest in retail parades and precincts throughout the UK. It is intended that the joint venture will comprise over £37m in equity which, with gearing, will provide a total of around £100m to invest in the UK neighbourhood/convenience retail sector. With Pramerica committing to provide 80% of the equity (£30m) and LSR providing the remaining 20% (£7.5m), the joint venture is structured so that LSR and Pramerica act as co-investors. LSR also acts as manager, for which it receives fees, and is responsible for sourcing the investments. Debt finance is being provided by HSBC.

Since establishing the joint venture, we have reviewed over 125 opportunities with a combined asking price of over £300m which we are typically sourcing off-market using our UK-wide network of retained agents. We are being highly selective in our buying but expect the rate of purchases to accelerate over the coming months as vendors' aspirations move down to our bid levels. To date, we have completed the purchases of retail parades in Stanwell, Middlesex for £1.62m and Liverpool for £0.85m. We have exchanged contracts to acquire a parade in Connah's Quay for £2.88m and shortly anticipate exchanging contracts on a portfolio of four properties in Scotland from receivers, which includes a well let retail parade in Kilsyth, for £2.55m. A further two properties are under offer for £2.85m.

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 detail in the Annual Report for the year ended 30 September 2010 (available on the Company's website: www.localshoppingreit.co.uk). The principal risks are around property values and returns, 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 2011 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, the significant majority of which is 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 across 650 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

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

Outlook

With below trend economic growth, inflation above target and fragile consumer confidence, the economy remains delicately balanced and downside risks persist. This presents a tough retail environment in which to operate. However, during the last six months we have continued to be encouraged by the resilience of our occupier market which supplies the convenience and top-up shopping needs of the wider population. Looking forward, certain regions within the UK may be more adversely affected than others by the ongoing fiscal squeeze. However, we are confident that the wide geographic spread and diversity of our assets and tenant base, with its focus on non-discretionary consumer spend, will continue to support our strong, cash generative business model.

The short term outlook for the investment market looks subdued. While we believe low interest rates are supportive of current prices, we foresee little likelihood of further yield compression. An increase in investor activity is only likely once the lending market returns to some degree of normality, which may not be for some years. In the meantime, we will maintain our highly selective approach to acquisitions, concentrating 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 into other more earnings enhancing opportunities.

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. With this stable platform we are now looking to grow the business, with a particular focus on recurring income and profit. Over recent months we have begun to put the building blocks in place to drive our earnings forward. Our recently established joint venture with Pramerica Real Estate Investors provides us with the flexibility and firepower to take advantage of accretive buying opportunities in the local shopping sector, while also giving us the opportunity to earn management fees. 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 continuing our 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, building upon our success in securing mandates to manage property for two UK banks.

We believe we are in a marketplace where it will pay to be patient. 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
- Use our unique business platform and management skills to grow revenue, which will be achieved by:
  - sales of ex-growth properties to invest in new opportunities;
  - portfolio or corporate acquisitions;
  - the creation of further partnership vehicles aligned to our sector; and
  - distressed asset management.

Grahame Whateley
Chairman

M E Riley
Joint CEO

N J Gregory
Joint CEO

25 May 2011

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 25 May 2011.

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 2011, 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 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 2011 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 2011

Condensed Consolidated Income Statement

for the six months ended 31 March 2011

	Note	Unaudited Six months ended 31 March 2011 £000	Unaudited Six months ended 31 March 2010 £000	Audited Year ended 30 Sept 2010 £000
Gross rental income		**8,074**	7,534	15,539
Property operating expenses		**(1,218)**	(1,205)	(2,646)
Net rental income		**6,856**	6,329	12,893
Loss on disposal of fixed assets		**–**	(4)	(4)
Profit/(loss) on disposal of investment properties		**102**	(12)	7
(Loss)/gain on change in fair value of investment properties		**(1,914)**	7,324	2,667
Administrative expenses		**(1,485)**	(1,288)	(2,573)
Net other expenses		**(33)**	(37)	(40)
Operating profit before net financing costs		**3,526**	12,312	12,950
Financing income*	3	**2**	5	7
Financing expenses*	3	**(3,747)**	(3,615)	(7,353)
Movement in fair value of derivatives	3	**2,689**	(1,244)	(3,789)
Operating profit after net financing costs		**2,470**	7,458	1,815
Result of jointly controlled entity	7	**–**	–	–
Profit before taxation		**2,470**	7,458	1,815
Tax	4	**–**	–	–
Profit for the financial period attributable to equity holders of the Company		**2,470**	7,458	1,815
Basic and diluted earnings per share	9	**3.0p**	9.2p	2.2p

* Excluding movements in the fair value of financial derivatives

Condensed Consolidated Balance Sheet

for the six months ended 31 March 2011

	Note	Unaudited 31 March 2011 £000	Unaudited 31 March 2010 £000	Audited 30 September 2010 £000
Non-current assets				
Property, plant and equipment		**173**	198	189
Investment properties	6	**190,828**	188,013	194,079
Investments in jointly controlled entity	7	**198**	–	–
Total non-current assets		**191,199**	188,211	194,268
Current assets				
Trade and other receivables		**3,904**	4,077	4,337
Cash		**8,350**	6,297	6,120
Total current assets		**12,254**	10,374	10,457
Total assets		**203,453**	198,585	204,725
Non-current liabilities				
Interest bearing loans and borrowings	8	**(131,755)**	(121,688)	(131,691)
Finance lease liabilities		**(1,205)**	(924)	(1,206)
Derivative financial instruments	11	**(4,027)**	(4,212)	(6,746)
Total non-current liabilities		**(136,987)**	(126,824)	(139,643)
Current liabilities				
Interest bearing loans and borrowings	8	**–**	–	–
Trade and other payables		**(5,491)**	(4,743)	(5,061)
Derivative financial instruments	11	**(2,411)**	(2,370)	(2,381)
Total current liabilities		**(7,902)**	(7,113)	(7,442)
Total liabilities		**(144,889)**	(133,937)	(147,085)
Net assets		**58,564**	64,648	57,640
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		**34,693**	40,777	33,769
Total attributable to equity holders of the Company		**58,564**	64,648	57,640

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 2011

	Note	Unaudited Six months ended 31 March 2011 £000	Unaudited Six months ended 31 March 2010 £000	Audited Year ended 30 Sept 2010 £000
Operating activities				
Profit for the financial period		**2,470**	7,458	1,815
Adjustments for:				
Loss/(gain) on change in fair value of investment properties	6	**1,914**	(7,324)	(2,667)
Net financing costs	3	**1,056**	4,854	11,135
Loss on disposal of fixed assets		**–**	4	4
(Profit)/loss on disposal of investment properties		**(102)**	12	(7)
Payment of finance leases		**62**	–	116
Depreciation		**19**	20	38
Employee share options		**–**	89	107
		5,419	5,113	10,541
Decrease in trade and other receivables		**432**	568	310
Increase/(decrease) in trade and other payables		**487**	(337)	(174)
		6,338	5,344	10,677
Interest paid		**(3,740)**	(3,675)	(7,331)
Interest received		**2**	5	7
Net cash flows from operating activities		**2,600**	1,674	3,353
Investing activities				
Proceeds from sale of investment properties		**4,703**	2,360	4,589
Acquisition of and improvements to investment properties		**(3,264)**	(7,704)	(20,356)
Acquisition of property, plant and equipment		**(3)**	(42)	(51)
Investment in jointly controlled entity		**(198)**	–	–
Cash flows from investing activities		**1,238**	(5,386)	(15,818)
Net cash flows from operating activities and investing activities		**3,838**	(3,712)	(12,465)
Financing activities				
New borrowings		**–**	5,500	15,600
Dividends paid		**(1,546)**	(1,465)	(2,848)
Payment of finance lease liabilities		**(62)**	25	(116)
Cash flows from financing activities		**(1,608)**	4,060	12,636
Net increase in cash		**2,230**	348	171
Cash at beginning of period		**6,120**	5,949	5,949
Cash at end of period		**8,350**	6,297	6,120

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 March 2011

	Unaudited 31 March 2011 £000	Unaudited 31 March 2010 £000	Audited 30 September 2010 £000
Profit for the period	**2,470**	7,458	1,815
Total comprehensive income for the period	**2,470**	7,458	1,815
Attributable to:			
Equity holders of the parent Company	**2,470**	7,458	1,815

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 March 2011

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 30 September 2009	18,334	3,773	1,764	34,695	58,566
Total comprehensive income for the period					
Profit for the period	–	–	–	7,458	7,458
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(1,465)	(1,465)
Share-based payments	–	–	–	89	89
Total contributions by and distributions to owners	–	–	–	(1,376)	(1,376)
At 31 March 2010	18,334	3,773	1,764	40,777	64,648
Total comprehensive income for the period					
Loss for the period	–	–	–	(5,643)	(5,643)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(1,383)	(1,383)
Share-based payments	–	–	–	18	18
Total contributions by and distributions to owners	–	–	–	(1,365)	(1,365)
At 30 September 2010	18,334	3,773	1,764	33,769	57,640
Total comprehensive income for the period					
Profit for the period	–	–	–	2,470	2,470
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(1,546)	(1,546)
Share-based payments	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	(1,546)	(1,546)
At 31 March 2011	**18,334**	**3,773**	**1,764**	**34,693**	**58,564**

Notes to the Half Year Report

for the six months ended 31 March 2011

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 2010 (with which they should be read in conjunction).

The comparative figures for the financial year ended 30 September 2010 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.

The Group is organised as a single operating and reportable segment. All management information is produced quarterly on a Group basis and presented to the Board of Directors. No data is provided below portfolio level. The Board of Directors are considered to be the chief operating decision makers. All of the Group's revenues are derived from the ownership of investment properties. The Group has a large and diverse tenant base, there is no significant reliance on any one tenant. The Group's investment properties are located across the country.

The financial information presented quarterly to the Board is recurring profit. The following table reconciles profit stated in the Income Statement to the recurring profit presented to the Board.

	6 months ended 31 March 2011 £000	6 months ended 31 March 2010 £000	Year ended 30 September 2010 £000
IFRS reported profit	**2,470**	7,458	1,815
Loss/(gain) on the movement in fair value of the portfolio	**1,914**	(7,324)	(2,667)
Movement in the fair value of the interest rate swaps held	**(2,689)**	1,244	3,789
(Profit)/loss on disposal of investment properties	**(102)**	12	(7)
Loss on disposal of fixed assets	**–**	4	4
Net other expenses	**33**	–	–
Recurring profit	**1,626**	1,394	2,934

3 Net financing costs

	6 months ended 31 March 2011 £000	6 months ended 31 March 2010 £000	Year ended 30 September 2010 £000
Interest receivable	2	5	7
Financing income excluding fair value movements	2	5	7
Fair value gains on derivative financial instruments (see note 11)	2,689	–	–
	2,691	5	7
Bank loan interest	(3,644)	(3,466)	(7,167)
Amortisation of loan arrangement fees	(75)	(124)	(130)
Head rents treated as finance leases	(28)	(25)	(56)
Financing expenses excluding fair value movements	(3,747)	(3,615)	(7,353)
Fair value losses on derivative financial instruments	–	(1,244)	(3,789)
Financing expenses	(3,747)	(4,859)	(11,142)
Net financing costs	(1,056)	(4,854)	(11,135)

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.

5 Dividends

A dividend of 1.9p per share (Total: £1.55m) was paid on 31 December 2010. 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 PID.

On 30 June 2010 an interim dividend was paid of 1.7p per share (Total: £1.38m). This dividend was wholly classified as a PID.

On 31 December 2009 a dividend was paid of 1.8p per share (Total: £1.46m). This dividend was wholly classified as a non-PID.

6 Investment properties

	Total £000
At 1 October 2010	194,079
Additions	3,264
Disposals	(4,601)
Fair value adjustments	(1,914)
At 31 March 2011	**190,828**

The investment properties have all been revalued to their fair value at 31 March 2011.

All properties acquired since 1 October 2010, 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.

No investment properties have been identified that meet the criteria of assets held for resale at 31 March 2011.

A reconciliation of the portfolio valuation at 31 March 2011 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	6 months ended 31 March 2011 £000	6 months ended 31 March 2010 £000	Year ended 30 September 2010 £000
Portfolio valuation	**189,623**	187,089	192,873
Head leases treated as investment properties held under finance leases in accordance with IAS 17	**1,205**	924	1,206
Total per Consolidated Balance Sheet	**190,828**	188,013	194,079

7 Investment in jointly controlled entity

During the period the Group entered into a joint venture arrangement with Local Parade Investments LLP, a newly incorporated entity. The initial investment made was £20.

	Equity investments £000	Loan advances £000	Total £000
Cost			
At 1 October 2010	–	–	–
Equity investments	–	–	–
New loans advanced	–	198	198
At 31 March 2011	**–**	**198**	**198**
Share of post acquisition results			
At 1 October 2010	–	–	–
Share of results for the period after taxation	(10)	–	(10)
At 31 March 2011	(10)	–	(10)
Net book value			
At 31 March 2011	**–**	**198**	**198**

In accordance with IAS 28, the Group's share of losses has been restricted to nil because there is no legal or constructive obligation for the Group to make payments to settle the joint venture liabilities.

8 Interest-bearing loans and borrowings

	31 March 2011 £000	31 March 2010 £000	30 September 2010 £000
Non-current liabilities			
Secured bank loans	**132,529**	122,429	132,529
Loan arrangement fees	**(774)**	(741)	(838)
	131,755	121,688	131,691
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.

9 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

	6 months ended 31 March 2011 £000	6 months ended 31 March 2010 £000	Year ended 30 September 2010 £000
Profit for the financial period	**2,470**	7,458	1,815

Weighted average number of shares

	6 months ended 31 March 2011 Number 000	6 months ended 31 March 2010 Number 000	Year ended 30 September 2010 Number 000
Issued ordinary shares 1 October 2010	**91,670**	91,670	91,670
Shares held by EBT	**(1,114)**	(1,123)	(1,123)
Treasury shares	**(9,164)**	(9,164)	(9,164)
Weighted average number of ordinary shares	**81,392**	81,383	81,383

Diluted earnings per share

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

10 Net asset value per share (NAV)

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

	31 March 2011 Number 000	31 March 2010 Number 000	30 September 2010 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 2011 £000	31 March 2010 £000	30 September 2010 £000
Net assets per Consolidated Balance Sheet	**58,564**	64,648	57,640
Net asset value per share	**£0.71**	£0.78	£0.70

Adjusted net asset value per share

	31 March 2011 £000	31 March 2010 £000	30 September 2010 £000
Net assets per Consolidated Balance Sheet	**58,564**	64,648	57,640
Fair value of derivative financial instruments	**6,438**	6,582	9,127
Adjusted net assets	**65,002**	71,230	66,767
Adjusted net asset value per share	**£0.79**	£0.86	£0.81

11 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:

	At 1 October 2010 £000	Fair value Movements in Income Statement £000	**At 31 March 2011 £000**
Non-current liabilities	(6,746)	2,719	**(4,027)**
Current liabilities	(2,381)	(30)	**(2,411)**
Net liabilities	(9,127)		**(6,438)**
Amount credited to Consolidated Income Statement		2,689	

The Group's interest rate swaps in place at 31 March 2011, 30 September 2010 and 31 March 2010 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 payable on fixed leg of swap %	At 30 September 2010 £000	Movements in Income Statement £000	**At 31 March 2011 £000**
30 April 2016	33,000	5.06 – 5.29	(4,179)	201	**(3,978)**
31 January 2017	23,978	5.4476	(4,884)	2,424	**(2,460)**
Swaps in place at 31 March 2011	56,978		(9,063)	2,625	**(6,438)**
Amortising swap with a maturity date of 31 January 2017	400	5.4476	(64)	64	**–**
Swaps in place at 30 September 2010	57,378		(9,127)	2,689	**(6,438)**

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 2011: 95%, (30 September 2010: 95% and 31 March 2010: 100%) of the Group's debt was fixed or protected.

11 Derivative financial instruments continued

Fair value

	31 March 2011 £000	31 March 2010 £000	30 September 2010 £000
Fixed rate loan			
Carrying value of loan	**69,018**	69,022	68,869
Mark to market adjustment	**7,067**	7,577	11,088
Fair value	**76,085**	76,599	79,957

12 Related parties

During the period a property was sold, at its market value of £1,620,000 to the newly incorporated joint venture entity, Local Parade Investments LLP. There have been no other 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 effect 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 2011 the Group had contracted capital expenditure for which no provision has been made within these financial statements of £430,000 (30 September 2010: £1,202,000 and 31 March 2010: £1,173,000).

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