the Local Shopping REIT plc

Half Year Report

for the six months to 31 March 2017

Stock Code: LSR

What we do . . .

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

Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or "top-up" shopping. As at 31 March 2017 the Company's directly owned portfolio comprised 256 properties, with 920 letting units.

The Company's investment strategy is to:

- dispose of its remaining property assets and repay its borrowings;
- maximise returns from the residual portfolio through sound asset management;
- return surplus proceeds to its shareholders.

What is a REIT?

Real Estate Investment Trusts are listed property investment companies or groups not liable to corporation tax on their rental income or capital gains fromtheir qualifying activities.

Local Shopping REIT plc online

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

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Highlights

- Property disposals programme in line to achieve targets set out in December 2016 statement, with 63 properties sold during the period, at an aggregate price of £9.5m.
- Recurring operating profit* for the period of £0.92m or 1.11 pence per share ("pps") (H1 2016: £0.54m or 0.66 pps).
- IFRS loss for the financial period of £0.02m or 0.03 pps (H1 2016: profit £0.42m or 0.52 pps).
- Net Asset Value (NAV): £35.6m or 43 pps (30 September 2016: £35.6m or 43 pps).
- Total net debt (taking account of cash reserves) reduced to £34.6m, reflecting a Group LTV of 48.8% (30 September 2016 £39.5m, Group LTV 52.5%).
- Debt repayment during the period of £8.5m.

*Recurring operating profit is explained in the Operating Results section below.

Chairman's Statement

Financial Results and Portfolio Performance

The Group made an IFRS loss before tax for the period of £0.02 million (or 0.03 pps). This compares with a profit of £0.42 million (0.52 pps) for the equivalent period of 2015-16 and a profit of £0.63 million (0.76 pps) for the full year to 30 September 2016. The recurring operating profit for the period was £0.92 million (or 1.11 pps), compared with £0.54 million (0.66 pps) for the six months to 31 March 2016 and £1.53 million (1.9 pps) for the year to 30 September 2016.

At 31 March 2017, our investment property portfolio was valued at £65.7 million, reflecting an equivalent yield (excluding the residential element) of 9.48% (30 September 2016: £75.3 million, equivalent yield 9.49%). During the period NAV remained broadly unaltered at £35.6 million or £0.43 per share.

Update on Property Disposal Programme

In December 2016, the Board announced that it had initiated an accelerated property disposal programme focussing initially on smaller, weaker, and geographically non-core assets. This programme committed to sell 125 properties (generating £20 million in sales proceeds) between October 2016 and December 2017, equating to 25 property sales generating £4.0 million per quarter.

During the six months to 31 March 2017 the Company sold 63 properties, at an aggregate price of £9.5m, 0.8% below carrying value. Since the period end a further 16 properties have been sold with gross proceeds of £2.0 million. This brings the aggregate property sales since the Company's revised investment policy was adopted in July 2013 to £106.1 million.

As at the date of this statement our outstanding bank loans total £36.9 million, a reduction of £13.9 million on the outstanding balance as at 30 September 2016. The debt repayments have been financed through the property disposals described above, together with the cash repayment when we agreed the extension of our loan facilities in November 2016.

Outlook

The Board has been encouraged by the progress with the sales programme it announced in December 2016, which will be continued for the remainder of the current calendar year. At the end of the year the Board will consider the prospects for portfolio, including the sale of the remaining property assets as a single portfolio and, failing which, an accelerated portfolio liquidation programme.

S J East
Chairman

Directors' Review

During the period the Company continued to focus on its strategy of liquidating its property investments and eliminating its indebtedness with a view to returning surplus cash to shareholders.

Revaluation

At 31 March 2017 the investment property portfolio, excluding those assets held for sale, was revalued at £65.5 million, reflecting an equivalent yield (excluding the residential element) of 9.48% (30 September 2016: £73.7 million, equivalent yield 9.49%). The movement during the period primarily reflected the reduction in the size of the property portfolio, whilst the market values remained relatively stable. On a like-with-like basis, the portfolio value decreased by £0.03 million (0.04%) from the 30 September 2016 equivalent of £65.5m.

As at 31 March 2017, the revalued portfolio (excluding those assets held for sale) comprised 256 properties with an annual headline rent, net of head rents payable, of £6.17 million, compared with 327 properties (£6.99 million) at 30 September 2016. The portfolio included 920 letting units (30 September 2016: 1,014 letting units).

Investment Property Portfolio as at 31 March 2017

Value	£65.45m
Initial Yield ("IY")	8.74%
Reversionary Yield ("RY")	9.84%
Equivalent Yield ("EY")	9.48%
Rent passing per annum*	£5.78m
Market Rent per annum*	£6.53m

*Net of head rents payable

Value Range	No. of Properties	Value £m	EY
£0 - £100k	101	6.94	10.9%
£101k - £200k	68	9.95	9.5%
£201k - £500k	64	20.62	9.4%
£501k - £1m	14	10.39	10.0%
£1m - £3m	7	11.36	9.3%
£3m +	2	6.20	7.5%
Total	**256**	**65.45**	**9.5%**

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

The table above illustrates the range of property values throughout the portfolio. The average property value was £256,000 and the median was £135,000. The portfolio includes 355 residential units, of which 189 were marketed for rent on Assured Shorthold Tenancies (the reminder being subject to long leases). The residential element of the portfolio has been valued at £10.7 million and the average value of the AST units was £57,000.

During the period like-for-like rental income decreased by 3.1%, and Market Rent decreased by 0.6%.

Net Asset Value ("NAV")

During the period NAV remained broadly unaltered at £35.6 million or £0.43 per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2016: £35.6 million, £0.43 per share).

The Group held £7.4 million of cash at the end of the period.

Operating Results

The Group made an IFRS loss before tax for the period of £0.02 million (or 0.03 pps), compared with a profit of £0.42 million (0.52 pps) for the six months to 31 March 2016 and a profit of £0.63 million (0.76 pps) for the full year to 30 September 2016.

The portfolio achieved gross rental income for the six months to 31 March 2017 of £3.31 million, compared with £3.60 million for the half year to 31 March 2016. This reduction primarily reflected the sale of property assets during the intervening twelve months.

Property operating expenses during the period were £0.91 million (six months to 31 March 2016: £0.90 million). These included bad debts, property repairs and maintenance, void costs, property management and letting fees, as well as non-recoverable VAT on residential and non-VAT opted properties. Some cost areas have reduced in line with the disposal programme. However, asset management activity has resulted in an increase in leasing costs and, in common with other property investment businesses, we have incurred higher local authority charges in respect of void properties. Further detail of property operating expenses are contained in Note 3 to the financial statements.

Directors' Review

Administrative expenses were £0.97 million during the period (six months to 31 March 2016: £0.83 million). This increase was primarily due to costs incurred in relation to the General Meeting held in December 2016, which is allocated as non-recurring expenditure in the table below. Further detail of administration expenses is contained in Note 5 to the financial statements.

The IFRS result reflected the realised gains and losses on the sales of properties after execution costs (as shown in Note 4 to the financial statements), together with the movement in fair value of the property portfolio.

In monitoring operational performance, the Board considers recurring operating profit. This measure excludes realised and unrealised gains and losses on investment properties and financial derivatives and expenditure items considered to be of a non-recurring nature. The recurring operating profit for the period was £0.92 million (or 1.11 pps), compared with £0.54 million (0.66 pps) for the six months to 31 March 2016 and £1.53 million (1.9 pps) for the year to 30 September 2016.

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

	31 March 2017 £000	31 March 2016 £000	30 Sept 2016 £000
Profit/(loss) before tax (IFRS)	**(23)**	423	631
Movement in the fair value of the portfolio	**265**	439	1,073
Movement in the fair value of the interest rate swaps held	**–**	(2,294)	(2,294)
Loss/(profit) on disposal of investment properties	**552**	216	199
Non-recurring expenditure	**125**	–	162
Buy-out of Swap contracts	**–**	1,758	1,758
Recurring profit on continuing operations	**919**	542	1,529

The calculation remains consistent with previous periods.

Asset Management

Whilst the timely sell down of the property portfolio continues to be our principle focus, it is critical that this is supported by effective asset management of the portfolio, to maintain rental income and maximise sale values. To this end during the period we carried out:

- 27 new lettings of vacant properties at a combined rent of £210,000 (2.6% above Market Rent);
- 10 lease renewals at a combined rent of £101,000 (3% above Market Rent);
- 6 rent reviews at an aggregate rent broadly equal to previous passing rent (4% below Market Rent).

The overall void rate within the portfolio at 31 March 2017 was 12.4% of portfolio Market Rent (30 September 2016: 10.9%). This increase in part reflects the sale of let properties.

We continue our policy of taking back units for re-letting as early as practicable where we consider that they are likely to be subject to rent defaults. We also seek rent deposits from new tenants and, at 31 March 2017, deposits were held in respect of commercial tenants equating to 30% of our quarterly rent roll (30 September 2016: 26%). Further deposits, typically equating to one month's rent, are held by our managing agents and regulated tenant deposit schemes in respect of residential tenancies.

Financing

During the period, the Group operated using loan facilities provided by HSBC Bank plc ("HSBC"). As at 31 March 2017, the facilities were as set out below.

Margin	2% above 3-month LIBOR		
Borrower	NOS 4 Limited	NOS 6 Limited	Total
Amount Outstanding £m	42.0	0.3	42.3
Default ICR Covenant		120%	
Default LTV Covenant		70%	
Amortisation	1.0% pq for 2 years from November 2016 0.25% pq thereafter (until the balance falls below £36m)		
Expiry Date	31 December 2019		

The two facilities provided by HSBC Bank plc ("HSBC") were subject to cross-collateralisation of the corresponding property portfolios. On each quarterly interest payment date the loan facilities are subject to actual and forecast interest cover (ICR) tests, and a loan-to value (LTV) test. At each testing date during the period the loans were determined to be compliant.

These facilities were due to expire on 30 April 2018. However, during the period the Company renegotiated its borrowing arrangements to extend the term of the facilities to 31 December 2019, at the previous margin of 2% above 3-month LIBOR.

At 31 March 2017 the debt outstanding was £42.3 million (30 September 2016: £50.8 million). Following repayments made at the April 2017 interest payment date, the outstanding loan balance had fallen to £36.9m by the time of publication of this report.

At 31 March 2017 the Group held £7.4 million of cash (30 September 2016: £11.0 million) and property valued at £1.9 million with no debt secured against it. The cash held relates to sales proceeds to be applied to loan repayment and required for working capital. The Group's overall LTV was 48.8%.

Dividend

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

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

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

The risks facing the Group for the remaining six months of the financial year remain consistent with those described in detail in the Annual Report for the year ended 30 September 2016 (available on the Company's website: www.localshoppingreit.co.uk). These centre on:

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

The Group does not consider financing to be a risk given the long-term nature of the outstanding debt, the Group's cash reserves and the level of debt-free properties in the portfolio.

The Group does not speculate in derivative financial instruments and has used them in the past only to hedge its exposure to fluctuations in interest rates.

The Group is exposed to the risk of non-payment of trade receivables by its tenants. However, the Directors consider that this does not comprise an undue concentration of credit risk, given that the risk is spread across in excess of 900 tenants operating across all retail occupations spread throughout the UK. The level of arrears is monitored continually by the Group's asset managers and subject to monthly review at executive level.

Responsibility Statement

We confirm that to the best of our knowledge:

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

(b) the Interim Management 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 interim management report on 10 May 2017.

S J East
Director

Independent Review Report

to The Local Shopping REIT plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2017 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Cash Flow Statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) *2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2017 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Mark Flanagan
for and on behalf of KPMG LLP
Chartered Accountants
31 Park Row
Nottingham
NG1 6FQ

10 May 2017

Condensed Consolidated Income Statement

for the six months ended 31 March 2017

	Note	**Unaudited Six months ended 31 March 2017 £000**	Unaudited Six months ended 31 March 2016 £000	Audited Year ended 30 September 2016 £000
Gross rental income		**3,308**	3,601	6,989
Property operating expenses	3	**(914)**	(899)	(1,862)
Net rental income		**2,394**	2,702	5,127
Loss on disposal of investment properties	4	**(552)**	(216)	(199)
Loss on change in fair value of investment properties	9	**(265)**	(439)	(1,073)
Administrative expenses	5	**(966)**	(831)	(1,710)
Operating profit before net financing costs		**611**	1,216	2,145
Financing income*	6	**4**	12	25
Financing expenses*	6	**(638)**	(1,341)	(3,833)
Movement in fair value of derivatives	6	**–**	536	2,294
(Loss)/Profit before taxation		**(23)**	423	631
Tax	7	**–**	–	–
(Loss)/Profit for the financial period from continuing operations		**(23)**	423	631
(Loss)/Profit for the financial period attributable to equity holders of the Company		**(23)**	423	631
Basic and diluted (loss)/profit per share on (loss)/profit for the financial period		**(0.03p)**	0.51p	0.76p
Basic and diluted (loss)/profit per share on continuing operations for the period	11	**(0.03p)**	0.51p	0.76p

* Excluding movements in the fair value of financial derivatives

Condensed Consolidated Statement of Comprehensive Income for the six months ended 31 March 2017

	Unaudited Six months ended 31 March 2017 £000	Unaudited Six months ended 31 March 2016 £000	Audited Year ended 30 September 2016 £000
(Loss)/Profit for the period	**(23)**	423	631
Share based transactions	**49**	–	66
Total comprehensive income for the period	**26**	423	697
Attributable to:			
Equity holders of the parent Company	**26**	423	697

Condensed Consolidated Balance Sheet

as at 31 March 2017

	Note	Unaudited 31 March 2017 £000	Unaudited 31 March 2016 £000	Audited 30 September 2016 £000
Non-current assets				
Investment properties	9	**65,897**	76,406	74,285
Total non-current assets		**65,897**	76,406	74,285
Current assets				
Trade and other receivables		**7,530**	2,208	2,094
Investment properties held for sale		**277**	840	1,590
Cash		**7,361**	12,289	11,000
Total current assets		**15,168**	15,337	14,684
Total assets		**81,065**	91,743	88,969
Non current liabilities				
Interest bearing loans and borrowings	10	**(40,292)**	(52,283)	(49,635)
Finance lease liabilities		**(443)**	(572)	(567)
Total non-current liabilities		**(40,735)**	(52,855)	(50,202)
Current liabilities				
Interest bearing loans and borrowings	10	**(1,668)**	(956)	(907)
Trade and other payables		**(3,087)**	(2,657)	(2,311)
Total current liabilities		**(4,755)**	(3,613)	(3,218)
Total liabilities		**(45,490)**	(56,468)	(53,420)
Net assets		**35,575**	35,275	35,549
Equity				
Issued capital		**18,334**	18,334	18,334
Reserves		**3,773**	3,773	3,773
Capital redemption reserve		**1,764**	1,764	1,764
Retained earnings		**11,704**	11,404	11,678
Total attributable to equity holders of the Company		**35,575**	35,275	35,549

Condensed Consolidated Statement of Cash Flows for the six months ended 31 March 2017

	Note	Unaudited Six months ended 31 March 2017 £000	Unaudited Six months ended 31 March 2016 £000	Audited Year ended 30 September 2016 £000
Operating activities				
Profit for the financial period		(23)	423	631
Adjustments for:				
Loss on change in fair value of investment properties	9	265	439	1,073
Net financing costs	6	634	793	1,514
Loss on disposal of investment properties		552	216	199
Employee benefit trust shares vesting		49	–	66
		1,477	1,871	3,483
Increase in trade and other receivables		(5,436)	(268)	(66)
Increase /(decrease) in trade and other payables		833	(74)	(423)
		(3,126)	1,529	2,994
Interest paid		(616)	(1,739)	(2,353)
Bank facility fees paid		(12)	–	–
Loan arrangement fees paid		(257)	(4)	(5)
Interest received		4	12	25
Net cash flows from operating activities		(4,007)	(202)	661
Investing activities				
Proceeds from sale of investment properties		9,142	4,079	4,919
Acquisition of and improvements to investment properties		(257)	(124)	(210)
Cash flows from investing activities		8,885	3,955	4,709
Net cash flows from operating activities and investing activities		4,878	3,753	5,370
Financing activities				
Swap breakage costs (note 13)		–	(1,758)	(1,758)
Repayment of borrowings		(8,517)	(2,446)	(5,352)
Cash flows from financing activities		(8,517)	(4,204)	(7,110)
Net decrease in cash		(3,639)	(451)	(1,740)
Cash at beginning of period		11,000	12,740	12,740
Cash at end of period		7,361	12,289	11,000

Condensed Consolidated Statement of Changes in Equity for the six months ended 31 March 2017

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 30 September 2015	18,334	3,773	1,764	10,981	34,852
Total comprehensive income for the period					
Profit for the period	–	–	–	423	423
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**
At 31 March 2016	18,334	3,773	1,764	11,404	35,275
Total comprehensive income for the period					
Profit for the period	–	–	–	208	208
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	66	66
Total contributions by and distributions to owners	**–**	**–**	**–**	**66**	**66**
At 30 September 2016	18,334	3,773	1,764	11,678	35,549
Total comprehensive income for the period					
Loss for the period	–	–	–	(23)	(23)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	49	49
Total contributions by and distributions to owners	**–**	**–**	**–**	**49**	**49**
At 31 March 2017	**18,334**	**3,773**	**1,764**	**11,704**	**35,575**

Notes to the Half Year Report

for the six months ended 31 March 2017

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 2016 (with which they should be read in conjunction).

During the last six months an accelerated sales programme has commenced, primarily via auction, where the economic risk transfers on the auction date. It has been decided to recognise these sales at the auction date instead of the subsequent completion date in order to properly reflect the level of property sales activity. Provision is made for the relevant auction and legal fees arising on the sales in calculating the gain or loss on disposal. The effect of this change on the March 2016 and September 2016 financial statements is not material, and therefore no re-statement of comparative figures has been made.

The comparative figures for the financial year ended 30 September 2016 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditors and delivered to the Registrar of Companies. The report of the Auditors was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Segmental reporting

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

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

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

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

3. Property operating expenses

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Bad debt charge	**(151)**	(148)	(356)
Head rent payments	**(8)**	(16)	(31)
Repairs	**(158)**	(211)	(377)
Business rates and council tax	**(155)**	(133)	(246)
Irrecoverable service charge	**(53)**	(94)	(134)
Utilities	**(36)**	(39)	(70)
Insurance*	**(26)**	45	2
Managing agent fees	**(133)**	(137)	(279)
Leasing costs	**(127)**	(97)	(211)
Legal & professional	**(27)**	(22)	(72)
EPC amortisation, Abortives, and Miscellaneous	**(40)**	(47)	(88)
Total property operating expenses	**(914)**	(899)	(1,862)

The company's portfolio contains residential elements and commercial properties not opted for VAT. In the above table the applicable VAT which is not recoverable has been included directly in the cost.

*The insurance credits in March 2016 and September 2016 were the result of an over-provision in 2015.

4. Property disposals

	Six months ended 31 March 2017 Number	Six months ended 31 March 2016 Number	Year ended 30 September 2016 Number
Number of sales	**63**	16	27
	£000	£000	£000
Average value	**151**	252	185
Sales			
Total sales	**9,496**	4,032	4,997
Carrying value	**(9,570)**	(4,135)	(5,025)
Loss on disposals before transaction costs	**(74)**	(103)	(28)
Transaction costs			
Legal fees	**(139)**	(42)	(67)
Agent fees, marketing and brochure costs	**(284)**	(53)	(74)
Disbursements	**(4)**	(8)	(12)
Non-recoverable VAT (on non-opted and residential elements)	**(51)**	(10)	(18)
Total transaction costs	**(478)**	(113)	(171)
Loss on disposals after transaction costs	**(552)**	(216)	(199)
Transaction costs as percentage of sales value	**5.0%**	2.8%	3.4%

Notes to the Half Year Report

for the six months ended 31 March 2017

5. Administrative expenses

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Investment manager fees*	(513)	(494)	(963)
Legal and professional	(98)	(107)	(348)
Tax and audit	(56)	(66)	(99)
Remuneration Costs**	(93)	(33)	(133)
Other	(26)	(62)	(39)
Irrecoverable VAT on Administration expenses ***	(55)	(69)	(128)
December 2016 General Meeting costs	(125)	–	–
Total administrative expenses	**(966)**	**(831)**	**(1,710)**

*Investment management fees have increased primarily due to a higher amount of sales fees payable on the back of the accelerated sales programme. The minimum investment management fee falls away in July 2017, and this will be reflected in the September 2017 financial statements (see note 15).

**Remuneration costs include £49,000 (30 September 2016: £ 66,000) in respect of the expensing of employee share options which vest in 2018 onwards or if liquidation targets are met. This amount has a corresponding entry in equity and has no impact on the Company's net assets now or in the future.

***The company's portfolio contains residential elements and commercial properties not opted for VAT. Accordingly, VAT on administrative expenses is not fully recoverable.

6. Net financing costs

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Interest receivable	**4**	12	25
Financing income excluding fair value movements	**4**	12	25
Fair value gains on derivative financial instruments (see note 13)	**–**	536	2,294
	4	548	2,319
Bank loan interest	**(545)**	(1,266)	(1,924)
Amortisation of loan arrangement fees	**(67)**	(58)	(117)
Head rents treated as finance leases	**(14)**	(17)	(34)
Bank facility fees	**(12)**		
Financing expenses excluding fair value movements	**(638)**	(1,341)	(2,075)
Payments to close swaps (see note 13)	**–**	–	(1,758)
Financing expenses	**(638)**	(1,341)	(3,833)
Net financing costs	**(634)**	(793)	(1,514)

7. 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.

8. Dividends

No dividends have been paid since December 2012.

9. Investment properties

	Total £000
At 1 October 2016	74,285
Additions	257
Disposals	(9,570)
Reduction in head lease value	(124)
Fair value adjustments	(265)
Movement on investment properties held for sale	1,314
At 31 March 2017	**65,897**

The investment properties have all been revalued to their fair value at 31 March 2017.

For the Group as a whole, Allsop LLP, a firm of independent chartered surveyors valued the group's property portfolio at 31 March 2017 and 30 September 2016, and at 31 March 2016 and 30 September 2015. On each of these dates Allsop LLP performed a full valuation of 25% of the group's properties (including site inspections) and a desktop valuation of the remainder, such that all properties owned by the group have been inspected and valued over the two-year period. All properties acquired to each of these dates were also valued by Allsop. These valuations are reviewed by the Company's management team prior to finalisation. The valuations were undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value.

Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

A reconciliation of the portfolio valuation at 31 March 2017 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	31 March 2017 £000	31 March 2016 £000	30 September 2016 £000
Portfolio valuation	**65,731**	76,674	75,308
Investment properties held for sale	**(277)**	(840)	(1,590)
Head leases treated as investment properties held under finance leases in accordance with IAS 17	**443**	572	567
Total per Consolidated Balance Sheet	**65,897**	76,406	74,285

Notes to the Half Year Report

for the six months ended 31 March 2017

10. Interest-bearing loans and borrowings

	31 March 2017 £000	31 March 2016 £000	30 September 2016 £000
Non-current liabilities			
Secured bank loans	40,667	52,527	49,821
Loan arrangement fees	(375)	(244)	(186)
	40,292	52,283	49,635
Current liabilities			
Current portion of secured bank loans	1,668	956	907

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

The loans are amortised by 1% of the balance outstanding on a quarterly basis, and the final balance is repayable in 2019.

11. Earnings per share

Basic earnings per share

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

(Loss)/Profit attributable to ordinary shares

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
(Loss)/Profit for the financial period	(23)	423	631

Weighted average number of shares

	31 March 2017 Number 000	31 March 2016 Number 000	30 September 2016 Number 000
Issued ordinary shares	91,670	91,670	91,670
Treasury shares	(9,164)	(9,164)	(9,164)
Weighted average number of ordinary shares	82,506	82,506	82,506

Diluted earnings per share

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

12. Net asset value (NAV)

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

	31 March 2017 Number 000	31 March 2016 Number 000	30 September 2016 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 2017 £000	31 March 2016 £000	30 September 2016 £000
Net assets per Consolidated Balance Sheet	**35,575**	35,275	35,549
Net asset value per share	**£0.43**	£0.43	£0.43

13. Derivative financial instruments

Derivative financial instruments held by the Group were interest rate swaps used to manage the Group's interest rate exposure. These were fully paid down in the year to 30 September 2016. The Company continues to monitor the interest rate environment, and may enter into some hedging arrangements in the future. However, given the currently low and stable rates and the Company's sales programme, this would not be advantageous at present.

14. Related parties

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

15. Significant contracts

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

1. An annual management fee of 0.70% of the gross asset value of the portfolio, subject to a minimum fee of £1m in each of the first two years, £0.95m for the third year and £0.9m for the fourth year. This minimum falls away in July 2017.

2. An annual performance fee of 20% of the recurring operating profits above a pre-agreed target recurring profit

3. Fees for property sales as follows:
   Up to £50m nil
   £50m - £150m 0.5% of sales
   Over £150m 1% of sales

4. A terminal fee of 5.7% of cash returned to the Company's shareholders in excess of 36.1 pence per share per annum from the Effective Date outside of dividend payments (the "Terminal Fee Hurdle"). The Terminal Fee Hurdle rises by 8% per annum after the first year but reduces on a pro-rata daily basis each time equity is returned to shareholders outside of dividend payments from recurring operating profits.

Under the terms of the agreement Internos received a fee of £513,000 (September 2016 - £963,000,461 March 2016 - £510,000).

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