the Local Shopping reit plc

# THE LOCAL SHOPPING REIT PLC
# HALF-YEAR REPORT
# FOR THE SIX MONTHS TO 31 MARCH 2020

Stock Code: LSR

# Management Report

## Corporate Activity

The beginning of the period saw the finalisation of the share buy-back programme that commenced during the Company's 2018-19 financial year, with 631,058 ordinary shares being purchased by the Company and then cancelled on 1 October 2019. As a result of the buy-back programme overall, 59,808,456 ordinary shares were purchased by the Company at a price of 31.33 pence per share and then cancelled, leaving the Company with 22,697,397 ordinary shares in issue (excluding 9,164,017 ordinary shares held in treasury).

Following these changes the Company's previous board of directors, comprising Stephen East, Nicholas Vetch and Brett Miller, resigned and were replaced by Duncan Soukup (as non-executive Chairman) and Gareth Edwards (as senior independent non-executive director).

Following the buy-back, trading in the Company's shares on the London Stock Exchange was suspended, as the Company did not meet the minimum free-float requirement. The directors are actively working on plans for remedying this situation and restoring trading in the Company's shares.

The board are currently working on a plan to transfer the Company to the Standard List and change the Company's investment objectives from a Real Estate Investment Trust to an operating company focused on Travel and Leisure, subject to necessary approvals. Further details will be announced in due course.

## Economic Background & Market Conditions

The uncertainty regarding the terms of the UK's exit from the European Union and its future relationship with its largest trading partner continued to affect the property market throughout the period. Towards the end of the period, many of our tenants were profoundly affected by the COVID-19 virus and the Government's consequent imposition of a lockdown. We were immediately in contact with our tenants, both directly and through our property managers, with a view to assisting them to apply for the grants and business rates exemptions made available to retailers. At the time of writing many of our tenants have been able to maintain rent payments and we look forward to a normalisation of trading as lockdown restrictions are lifted. However, the effects on trading of the outbreak are likely to last for a number of months to come and our aim will continue to be to support our tenants as far as reasonably possible during this difficult period.

## Financial Results and Portfolio Performance

The Company made a loss before tax for the period of £0.06 million or 0.26p per share. This compares with a loss of £1.90 million or 2.30p per share for the equivalent period of 2018-19 and a loss of £1.874 million or 2.34p per share for the full year to 30 September 2019.

## Asset Management

The programme of asset sales was suspended in order to maintain the Company's income stream. Accordingly, only two asset sales, which had been contracted during the previous financial year, were completed during the period, at an aggregate gross sale price of £0.355 million. The holding value of those properties in the Company's accounts at 30 September 2019 took account of agreed pricing and sales costs. The Company currently holds six property assets (of which one asset is considered to be held for sale, at a gross sale price of £0.350 million).

Besides completing the two asset sales contracted for during the previous financial year, asset management activities during the period focussed on maximising property occupancy and opportunities for rental growth, as well as a number of repair and maintenance projects. Marketing and letting activities are continuing, albeit with appropriate precautions to meet lockdown requirements.

**Portfolio Valuation**

In view of the market uncertainty and the operational restrictions arising from the COVID-19 outbreak, the directors have not considered it appropriate to carry out a fresh valuation of the property portfolio at the half-year (although inevitably the epidemic will have had a negative effect on the value of our properties at 31 March 2020). The six properties contained in the portfolio therefore continue to be recognised in the financial statements at their holding value in the Company's accounts at 30 September 2019. One property is considered to be held for sale and its holding value in the Company's accounts therefore takes account of agreed pricing and sales costs.

The fair value of the property portfolio of the six assets held at 31 March 2020 was £3.120 million (30 September 2019: 8 assets, £3.465m).

The 30 September 2019 valuations were provided by Allsop LLP, a firm of independent chartered surveyors, as a desktop update of the full RICS valuation that they supplied on 25 July 2019.

**Cash and Net Asset Value**

At 31 March 2020 the Company held £4.023 million in cash (30 September 2019: £3.566 million).

The Net Asset Value at 31 March 2020 was £6.933 million or 30.55p per share (September 2019: £6.992 million or 30.81p per share).

**Basis of Preparation of Financial Statements**

The Company's financial statements at 31 March 2019 were prepared on a break-up basis in view of the progress with the property sales programme then in place. Having suspended the property disposal programme, the new directors decided that it was appropriate for the financial statements for 30 September 2019 (published on 29 January 2020) should return to being prepared on the going concern basis. The financial statements contained in this report are also prepared on the going concern basis.

**Financing**

The Company did not utilise any external funding facilities during the period.

**Taxation**

The Group continued to operate as a UK REIT during the period, under which any profits and gains from the property investment business are exempt from Corporation Tax provided certain conditions continue to be met. From the first closing date of the share buy-back offer on 16 September 2019, the Group no longer fulfilled the REIT conditions, principally owing to the proportion of the Company's issued share capital that had come to be held by Thalassa

Holdings Ltd. The Company therefore entered discussions with HM Revenue & Customs who confirmed that the Company may maintain its REIT status until 30 September 2020 provided that the relevant conditions are met before that date.

In the event that the Company departs from the UK REIT regime at that date, HM Revenue & Customs may assess the Company for Corporation Tax from the beginning of the accounting period during which the REIT conditions were not fulfilled, i.e. 1 October 2018. However, the Board believes that the Group's activities since then are unlikely to have generated any material Corporation Tax liability.

**Dividend**

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

**Related Party**

The investment advisory agreement between the Company its fund manager, Principal Real Estate Limited, which was considered to be a related party of the Company for the purposes of the rules of the UK Listing Authority of the Financial Conduct Authority, terminated on 24 November 2019. The Company has, therefore, been considered to be internally managed since that date.

**Registered Office**

During the period, the Company moved its registered office to Eastleigh Court, Bishopstrow, Warminster BA12 9HW.

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

The risks facing the Group for the remaining six months of the financial year remain consistent with those described in detail in the Annual Report for the year ended 30 September 2019 (available on the Group's website: www.localshoppingreit.co.uk).

These centre on:

- Changes in the macroeconomic environment, particularly those arising from the COVID-19 epidemic
- Higher than anticipated property maintenance costs
- Changes to legal environment, planning law or local planning policy
- Regulatory requirements in connection with the property portfolio
- Information technology systems and data security
- Non-payment of trade receivables by tenants, potentially exacerbated by the COVID-19 epidemic
- Financial and property market conditions
- Uncontrolled exit from the UK REIT regime

However, the potential impact of a number of these risk areas on the Company has been mitigated by the considerable reduction in the size of the Company's property portfolio, meaning that a significant portion of the Company's assets is now held as cash.

The Group does not speculate in derivative financial instruments.

The Group's exposure to the risk of non-payment of trade receivables by its tenants is considered to have been heightened in recent months as a direct result of the COVID-19 virus and the consequent lockdown imposed by the UK Government. The lockdown has also impacted on the ability of the Company to refurbish, market and let vacant properties. The directors monitor the level of rent and service charge arrears, as well as progress with letting void properties, on a continual basis.

**Auditors' Review**

This half-yearly financial report has been reviewed but not audited by auditors pursuant to the Financial Reporting Council guidance on Review of Interim Financial Information.

**Responsibility Statement**

We confirm that to the best of our knowledge that:

(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 23 June 2020.

**Duncan Soukup**
**Chairman**

**Condensed Consolidated Income Statement for the six months ended 31 March 2020**

| | Note | Unaudited Six months ended 31 March 2020 £000 | Unaudited Six months ended 31 March 2019 £000 | Audited Year ended 30 September 2019 £000 |
|---|---|---|---|---|
| Gross rental income | | 229 | 459 | 764 |
| Property operating expenses | 3 | (45) | (672) | (695) |
| Net rental income | | 184 | (213) | 69 |
| Profit/(Loss) on disposal of investment properties held for sale | 4 | 1 | (147) | (148) |
| Change in fair value of investment properties held for sale | 9 | - | (295) | (258) |
| Administrative expenses | 5 | (155) | (1,261) | (1,580) |
| Operating Profit/(Loss) before net financing costs | | 30 | (1,916) | (1,917) |
| Financing income | 6 | 3 | 20 | 49 |
| Financing expenses | 6 | (92) | (4) | (6) |
| Loss before taxation | | (59) | (1,900) | (1,874) |
| Tax | 7 | - | - | - |
| Loss for the financial period attributable to equity holders of the parent Company | | (59) | (1,900) | (1,874) |
| Basic and diluted loss per share on loss for the financial period | | (0.26)p | (2.30)p | (2.34)p |

**Condensed Consolidated Statement of Comprehensive Income for the six months ended 31 March 2020**

| | Unaudited Six months ended 31 March 2020 £000 | Unaudited Six months ended 31 March 2019 £000 | Audited Year ended 30 September 2019 £000 |
|---|---|---|---|
| Loss for the period & Total Comprehensive Loss for the Period | (59) | (1,900) | (1,874) |
| Attributable to: | | | |
| Equity holders of the parent Company | (59) | (1,900) | (1,874) |

**Condensed Consolidated Balance Sheet as at 31 March 2020**

| | Note | Unaudited<br>31 March<br>2020<br><br>£000 | Unaudited<br>31 March<br>2019<br><br>£000 | Audited<br>30 September<br>2019<br><br>£000 |
|---|---|---|---|---|
| Non-current assets | | | | |
| Investment properties | 9 | 3,139 | - | 3,139 |
| **Total non-current assets** | | **3,139** | **-** | **3,139** |
| Current assets | | | | |
| Trade and other receivables | | 192 | 844 | 378 |
| Investment properties held for sale | 9 | 330 | 3,656 | 677 |
| Cash | | 4,023 | 22,755 | 3,566 |
| **Total current assets** | | **4,545** | **27,255** | **4,621** |
| **Total assets** | | **7,684** | **27,255** | **7,760** |
| Non-current liabilities | | | | |
| Finance lease liabilities | | (350) | - | (350) |
| **Total non-current liabilities** | | **(350)** | **-** | **(350)** |
| Current liabilities | | | | |
| Trade and other payables | | (401) | (1,402) | (418) |
| **Total current liabilities** | | **(401)** | **(1,402)** | **(418)** |
| **Total liabilities** | | **(751)** | **(1,402)** | **(768)** |
| **Net assets** | | **6,933** | **25,853** | **6,992** |
| | | | | |
| **Equity** | | | | |
| Issued capital | | 319 | 18,334 | 319 |
| Capital redemption reserve | | 598 | 1,764 | 598 |
| Retained earnings | | 6,016 | 5,755 | 6,075 |
| **Total attributable to equity holders of the Company** | | **6,933** | **25,853** | **6,992** |

**Condensed Consolidated Statement of Cash Flows for the six months ended 31 March 2020**

| | Note | Unaudited Six months ended 31 March 2020 £000 | Unaudited Six months ended 31 March 2019 £000 | Audited Year ended 30 September 2019 £000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Loss for the financial period | | (59) | (1,900) | (1,874) |
| Adjustments for: | | | | |
| Loss on change in fair value of investment properties held for sale | 9 | - | 295 | 258 |
| Net financing (income)/costs | 6 | 89 | (16) | (43) |
| Profit/(Loss) on disposal of investment properties | | (1) | 147 | 148 |
| Equity secured share-based payment expenses | | - | 20 | 40 |
| | | **29** | **(1,454)** | **(1,471)** |
| Increase in trade and other receivables | | 186 | 3,497 | 3,963 |
| Decrease in trade and other payables | | (17) | (815) | (1,818) |
| | | 198 | 1,228 | 674 |
| Bank facility fees paid | | - | (4) | (6) |
| Loss on foreign exchange | | (92) | - | - |
| Interest received | | 3 | 20 | 49 |
| **Net cash flows from operating activities** | | **109** | **1,244** | **717** |
| | | | | |
| **Investing activities** | | | | |
| Proceeds from sale of investment properties | | 348 | 18,222 | 18,468 |
| Acquisition of and improvements to investment properties held for sale | | - | (3) | (4) |
| **Cash flows from investing activities** | | **348** | **18,219** | **18,464** |
| | | | | |
| Net cash flows from operating activities and investing activities | | 457 | 19,463 | 19,181 |
| | | | | |
| **Financing activities** | | | | |
| Reduction in share capital | | - | - | (18,907) |
| **Cash flows from financing activities** | | **-** | **-** | **(18,907)** |
| | | | | |
| Net increase in cash | | 457 | 19,463 | 274 |
| Cash at beginning of period | | 3,566 | 3,292 | 3,292 |
| Cash at end of period | | 4,023 | 22,755 | 3,566 |

**Condensed Consolidated Statement of Changes in Equity for the six months ended 31 March 2020**

| | Share capital £000 | Reserves £000 | Capital redemption reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| **At 30 September 2018** | **18,334** | **3,773** | **1,764** | **3,862** | **27,733** |
| Total comprehensive expense for the period | | | | | |
| Loss for the period | - | - | - | (1,900) | (1,900) |
| Transactions with owners, recorded directly in equity | | | | | |
| Dividends | - | - | - | - | - |
| Share based payments | - | - | - | 20 | 20 |
| Total contributions by and distributions to owners | - | - | - | - | - |
| Release of Gilfin acquisition reserve to distributable reserve | - | (3,773) | - | 3,773 | - |
| | | | | | |
| **At 31 March 2019** | **18,334** | **-** | **1,764** | **5,755** | **25,853** |
| Total comprehensive loss for the period | | | | | |
| Profit for the period | - | - | - | 26 | 26 |
| Transactions with owners recorded directly in equity | | | | | |
| Dividends | - | - | - | - | - |
| Share based payments | - | - | - | 20 | 20 |
| Total contributions by and distributions to owners | - | - | - | - | - |
| Capital reduction (Note a) | (17,417) | - | - | 17,417 | - |
| Transfer capital reserves to revenue (Note b) | - | - | (1,764) | 1,764 | - |
| Cost of own shares acquired (note c) | (598) | - | - | (18,309) | (18,907) |
| Creation of Capital Redemption Reserve (note d) | - | - | 598 | (598) | - |
| **At 30 September 2019** | **319** | **-** | **598** | **6,075** | **6,992** |
| Total comprehensive profit for the period | | | | | |
| Loss for the period | - | - | - | (59) | (59) |
| Transactions with owners, recorded directly in equity | | | | | |
| Dividends | - | - | - | - | - |
| Share based payments | - | - | - | - | - |
| Total contributions by and distributions to owners | - | - | - | - | - |
| **At 31 March 2020** | **319** | **-** | **598** | **6,016** | **6,933** |

During the six months period to 30 September 2019 the Company successfully applied to the High Court to undertake a capital restructuring in order to enable a share buy-back. Under this restructuring and buy back:

(a) The nominal value of ordinary shares was reduced from 20p to 1p, resulting in £17.417m being released to retained earnings.
(b) The capital redemption reserves and other reserves were transferred to retained earnings as part of the Court approved capital restructuring.
(c) 59,808,456 ordinary 1p shares were purchased, representing 72.5% of total share capital at the time, at a price of 31.33p each and then cancelled, the total cost comprising:

| | | | |
|---|---|---|---|
| | | | £000s |
| 59,808,456 shares purchased at | 1p nominal value of each share | | 598 |
| | plus premium 30.33p on each share | 18,140 | |
| | legal costs of restructuring and buy back | 169 | 18,309 |
| | | | 18,907 |

(d) A new capital redemption reserve of £0.598m was created to replace the nominal value of shares bought.

**Notes to the Half Year Report for the six months ended 31 March 2020**

## 1 Accounting policies

### Basis of preparation

The condensed unaudited 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 2019 (with which they should be read in conjunction). The independent auditor's report on the 2019 financial statements was not qualified.

The Group adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2019. Neither of these standards has a material effect on the Group's financial statements.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC® 4 Determining whether an Arrangement contains a Lease, SIC-15® Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The adoption of IFRS 16 is not expected have a material effect on the Group's financial statements.

The financial statements are prepared on a going concern basis, as were the financial statements for the year ended 30 September 2019. The financial statements for the six months ended 31 March 2019 were prepared on a break-up basis.

## 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 has identified one operation and one reporting segment which is reported to the Board on a quarterly basis. The Board of directors is considered to be the chief operating decision maker.

## 3 Property Operating Expenses

| | Six months ended 31 March 2020 £000 | Six months ended 31 March 2019 £000 | Year ended 30 September 2019 £000 |
|---|---|---|---|
| Bad debt charge | 9 | (26) | 108 |
| Head rent payments | (8) | (3) | (11) |
| Repairs | (12) | (209) | (211) |
| Business rates and council tax | (14) | (2) | (25) |
| Irrecoverable service charge | 8 | (41) | (39) |
| Utilities | 6 | (94) | (109) |
| Insurance | (7) | (11) | (36) |
| Managing agent fees | (18) | (99) | (123) |
| Leasing costs | - | (32) | (36) |
| Legal & professional | (6) | (74) | (113) |
| EPC amortisation, abortive costs, and miscellaneous | (3) | (81) | (100) |
| **Total property operating expenses** | **(45)** | **(672)** | **(695)** |

In common with many property organisations, the company's portfolio is a mix of residential, opted and non-opted properties for VAT. In the above table the applicable VAT which is not recovered has been included directly in the cost.

During the period the rate of rent collection improved, enabling a reduction in the bad debt provision.

## 4. Property disposals

| | Six months ended<br>31 March 2020<br>Number | Six months ended<br>31 March 2019<br>Number | Year ended<br>30 September 2019<br>Number |
|---|---|---|---|
| Number of sales | 2 | 65 | 66 |
| | **£000** | **£000** | **£000** |
| Average value | 175 | 288 | 287 |
| **Sales** | | | |
| Total sales | 355 | 18,410 | 18,955 |
| Carrying value | (347) | (18,369) | (18,616) |
| **Profit on disposals before transaction costs** | **8** | **326** | **339** |
| **Transaction costs** | | | |
| Legal fees | (4) | (201) | (210) |
| Agent fees, marketing and brochure costs | (3) | (238) | (240) |
| Disbursements | - | (6) | (8) |
| Non recoverable VAT (on non-opted and residential elements) | - | (28) | (29) |
| **Total transaction costs** | **(7)** | **(473)** | **(487)** |
| **Profit/(Loss) on disposals after transaction costs** | 1 | **(147)** | **(148)** |
| Transaction costs as percentage of sales value | 2.0% | 2.5% | 2.6% |

## 5. Administrative expenses

| | Six months ended 31 March 2020 £000 | Six months ended 31 March 2019 £000 | Year ended 30 September 2019 £000 |
|---|---|---|---|
| Investment manager fees | (8) | (232) | (320) |
| Legal and professional | (20) | (885) | (1,177) |
| Tax and audit | (37) | (49) | (96) |
| Remuneration costs* | (61) | (69) | (134) |
| Other | (7) | 29 | 14 |
| Irrecoverable VAT on administration expenses** | (22) | (55) | (92) |
| Provision for liquidators' fees | - | - | 225 |
| | | | |
| **Total administrative expenses** | **(155)** | **(1,261)** | **(1,580)** |

*The Company had no employees at the beginning of the period and one employee at the end of the period. The Company had three directors at the beginning of the period and two directors at the end of the period (2019: three). Remuneration costs include £nil in respect of the expensing of employee share options which were to vest in 2019 onwards or if liquidation targets are met (30 September 2019: £ 40,000; 31 March 2019: £20,000). 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 overheads is not fully recoverable.

## 6. Net financing income

| | Six months ended 31 March 2020 £000 | Six months ended 31 March 2019 £000 | Year ended 30 September 2019 £000 |
|---|---|---|---|
| Interest receivable | 3 | 20 | 49 |
| Financing income | 3 | 20 | 49 |
| Bank loan interest | - | - | - |
| Amortisation of loan arrangement fees | - | - | - |
| Loss on foreign exchange | (92) | - | - |
| | | | |
| Bank facility fees | - | (4) | (6) |
| Financing expenses | (92) | (4) | (6) |
| Net financing (Costs)/Income | (89) | 16 | 43 |

## 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.

From the first closing date of the Company's share buy-back offer on 16 September 2019, the Group no longer fulfilled certain of the REIT conditions, principally owing to the proportion of the Company's issued share capital that had thereby come to be held by Thalassa Holdings Ltd. The Company therefore entered discussions with HM Revenue & Customs who confirmed that the Company may maintain its REIT status until 30 September 2020 provided that the relevant conditions are met on that date. In the event that the Company is confirmed to have departed from the UK REIT regime at that date, HM Revenue & Customs may assess the Company for corporation tax from the beginning of the accounting period during which the REIT conditions were not fulfilled, i.e. 1 October 2018. However, the Board believes that the Group's activities since then and the availability of tax losses means that the Company's activities are unlikely to have generated any material corporation tax liability and no provision for corporation tax has been made in these accounts.

## 8. Dividends

No dividends have been paid since December 2012.

## 9. Investment properties

| | Total<br>£000 |
|---|---:|
| At 1 October 2019 | 3,816 |
| Additions | - |
| Disposals | (347) |
| Fair value adjustments | - |
| At 31 March 2020 | 3,469 |

Allsop LLP, a firm of independent chartered surveyors valued the Group's property portfolio at 30 September 2017, 31 March 2018, 30 September 2018 and 31 March 2019. 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 were been inspected and valued over the two-year period. The valuations, using assumptions regarding yield rates, void levels and comparable market transactions, 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.

In July 2019 Allsop LLP carried out a full valuation (including site visits) on all the properties held at that date. In the light of that recent full valuation, for the 30 September 2019 financial statements the Company had desktop valuations prepared by Allsops for all the properties in the portfolio at that date, except for three properties which were considered to be held for sale and were therefore valued at their expected sale price less sales costs.

In view of the market uncertainty and the operational restrictions arising from the COVID-19 outbreak, the directors did not consider it appropriate to carry out a fresh valuation of the property portfolio at the half-year. The six properties contained in the portfolio therefore continue to be recognised in the financial statements at their holding value in the Company's accounts at 30 September 2019. One property is considered to be held for sale and its holding value in the Company's accounts therefore takes account of agreed pricing and sales costs. During the period sales were completed on two properties considered at 30 September 2019 to be held for sale.

**Material valuation uncertainty**

The outbreak of the Coronavirus (COVID-19), declared by the World Health Organization as a "Global Pandemic" on 11 March 2020, has impacted global financial markets and global economy. Given the unknown future impact that COVID-19 might have on the real estate market less certainty should be attached to the valuation than would normally be the case.

A reconciliation of the portfolio valuation at 31 March 2020 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

| | **31 March 2020 £000** | **31 March 2019 £000** | **30 September 2019 £000** |
|---|---|---|---|
| Portfolio valuation* | 3,100 | 3,656 | 3,447 |
| Investment properties held for sale | (330) | (3,656) | (677) |
| Head leases treated as investment properties held under finance leases in accordance with IAS 17 | 369 | - | 369 |
| Total per Consolidated Balance Sheet | 3,139 | - | 3,139 |

* Revalued assets and held for sale at net realisable value

## 10. Earnings per share and 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 attributable to ordinary shares**

| | **Six months ended 31 March 2020 £000** | **Six months ended 31 March 2019 £000** | **Year ended 30 September 2019 £000** |
|---|---|---|---|
| Loss for the financial period | (59) | (1,900) | (7,154) |

**Weighted average number of shares**

| | **31 March 2020 Number 000** | **31 March 2019 Number 000** | **30 September 2019 Number 000** |
|---|---|---|---|
| Weighted average number of ordinary shares | 31,861 | 91,670 | 31,861 |
| Treasury shares | (9,164) | (9,164) | (9,164) |
| Weighted average number of ordinary shares | 22,697 | 82,506 | 22,697 |

**Diluted earnings per share**

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

**11. Net asset value (NAV)**

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

| | 31 March 2020<br><br>Number<br>000 | 31 March 2019<br><br>Number<br>000 | 30 September 2019<br><br>Number<br>000 |
|---|---|---|---|
| Number of shares in issue | 31,861 | 91,670 | 31,861 |
| Less: shares held in Treasury | (9,164) | (9,164) | (9,164) |
| | 22,697 | 82,506 | 22,697 |
| | | | |

| | 31 March 2020<br>£000 | 31 March 2019<br>£000 | 30 September 2019<br>£000 |
|---|---|---|---|
| Net assets per Consolidated Balance Sheet | 6,933 | 25,853 | 6,992 |
| Net asset value per share | £0.31 | £0.31 | £0.31 |

**12. 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.

Since the termination of the investment advisory agreement between the Company and Principal Real Estate Europe Limited on 24 November 2019, the Company's controlling shareholder, Thalassa Holdings Ltd, has provided management accounting and registered office facilities to the Company. Those services are supplied at cost and it is not considered that they comprise a related party transaction.

## 13. Significant contracts

The management agreement between the Company and Principal Real Estate Europe Limited ("Principal") was terminated on 24 November 2019. Under this agreement the Company had paid to Principal:

1. an annual management fee of 0.70% of the gross asset value of the Company, 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 fell away in July 2018;

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.

The fees paid by the Company to Principal in respect of the period totalled £8,000 (6 months to 31 March 2019: £232,000; 12 months to 30 September 2020: £320,000).

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