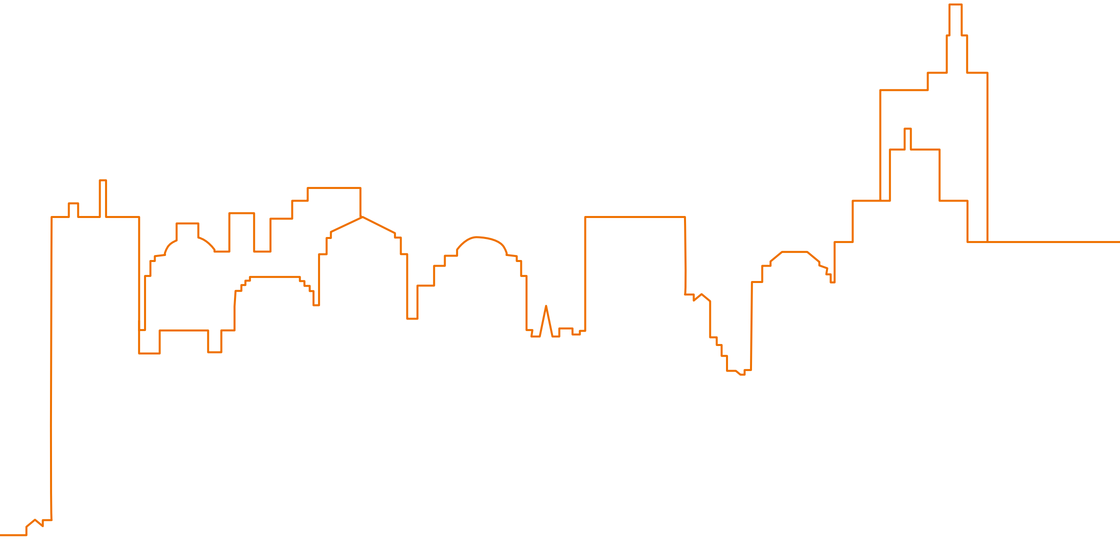
the
Local Shopping
REIT plc

Half Year Report

for the six months to 31 March 2018

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 and the provision of local services.

The Company's investment policy is to undertake a progressive disposal of its assets, to enable the repayment of bank facilities and the return of surplus value to its shareholders, whilst maximising returns from the residual property portfolio through sound asset management.

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 from their qualifying activities.

Local Shopping REIT plc online

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

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Highlights

- IFRS loss for the financial period of £2.87m or 3.48 pence per share ("pps") (H1 2017: £0.86m or 1.04 pps).
- Adjusted Operating Profit for the period of £0.14m or 0.16 pps (H1 2017: £0.92m or 1.11 pps).
- Portfolio valued at: 31 March 2018 at £24.81m, reflecting an equivalent yield (excluding the residential element) of 10.67% (30 September 2017: £54.16m, equivalent yield 9.47%). In addition, properties categorised as held for sale valued at £10.8m after sale costs (30 September 2017: £1.3m).
- Net Asset Value ("NAV") £31.97m or 39 pps (September 2017: £34.79m or 42 pps).
- Overall Group Loan to Value ("LTV") at 31 March 2018 of 20% (30 September 2017: 36.5%).
- Bank indebtedness reduced to £9.9m at 31 March 2018 (30 September 2017: £30.9m).
- 46 properties sold during the period, at an aggregate price of £17.28m, 3.1% below carrying value at the time of sale.

Chairman's Statement

Financial Results and Portfolio Performance

The Group made a loss before tax on an IFRS basis for the period of £2.87 million (or 3.48 pps). This compares with an IFRS loss of £0.02 million (0.03 pps) for the equivalent period of 2016-17 and a loss of £0.86 million (1.04 pps) for the full year to 30 September 2017. The Adjusted Operating Profit for the period was £0.14 million (or 0.16 pps), compared with £0.92 million (1.11 pps) for the six months to 31 March 2017 and £1.26 million (1.52 pps) for the year to 30 September 2017.

At 31 March 2018, our investment property portfolio was valued at £24.81 million, reflecting an equivalent yield (excluding the residential element) of 10.67% (30 September 2017: £54.16 million, equivalent yield 9.47%). These figures are net of capitalised head rents payable and are in addition to the 29 properties categorised as held for sale, valued at £10.8 million after sale costs (30 September 2017: 9 properties, £1.3 million).

The Net Asset Value was £31.97million or 39 pps (September 2017: £34.79 million or 42 pps).

Property Disposal Programme

During the period the Group focussed on the accelerated property disposal programme announced by the Board in December 2017, selling a further 46 properties, at an aggregate price of £17.28 million, 3.1% below carrying value at the time of sale.

The property disposals described above enabled the Group to further reduce its bank indebtedness, which at 31 March 2018 was £9.9 million (30 September 2017: £30.9 million) and at the date of this statement has been further reduced to £8.2 million.

We also expect to complete the sales of seven properties, at a value of £0.80 million, on which contracts were exchanged during the period. These sales are at a 2.7% discount to carrying value.

In addition, since the period end, the Group has sold or exchanged contracts for sale on a further 25 properties with gross proceeds of £6.52 million. We have also agreed terms for the sale of eight properties subject to pre-emption rights for residential tenants under section 5 of the Landlord and Tenant Act 1987. It is expected that the total sale price for these eight properties will be £5.31m.

Outlook

The property sales described above, both completed and in progress, total 85 assets with aggregate gross proceeds of £29.9 million. This puts the Group in a good position to achieve the target we set in December 2017 to dispose of 75% of the then remaining assets by the end of the current financial year. To achieve the remainder of this target, we plan to sell a further 40 assets by 30 September 2018. Whilst these sales will be principally through the auction market, we will also look to make further progress with individual and small portfolio sales by private treaty.

The sales currently in hand will enable us to make further progress with repaying the banking facility, the balance of which is expected to be eliminated by 30 June 2018. As soon as we achieve the sales targets set out above, we will turn our attention to the best means of returning cash to shareholders.

S J East
Chairman

Directors' Review

During the period the Group 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 2018 the investment property portfolio, excluding those assets held for sale, was revalued at £24.81 million, reflecting an equivalent yield (excluding the residential element) of 10.67% (30 September 2017: £54.16 million, equivalent yield 9.47%). This figure is net of capitalised head rents payable and in addition to properties categorised as held for sale, valued at £10.8 million after sale costs (30 September 2017: nine properties, £1.3 million). The movement during the period primarily reflected the reduction in the size of the property portfolio, and a general reduction in market values for properties of the type held by the Group. On a like-with-like basis, the portfolio value decreased by £1.65 million (6.23%) from the 30 September 2017 equivalent of £26.46 million.

For previous full year and half year periods a full independent valuation including site inspections has been performed on 25% of the Group's properties, with a desktop valuation of the remainder. Following on from the marketing of a substantial portfolio in late 2017, and the subsequent sale of many of the assets contained in that portfolio, the decision was made to perform full valuations on a higher proportion of the remaining assets.

As at 31 March 2018, the revalued portfolio (excluding those assets held for sale) comprised 107 properties with an annual headline rent, net of head rents payable, of £2.44 million, compared with 182 properties (£5.00 million) at 30 September 2017. The portfolio included 404 letting units (30 September 2017: 742 letting units).

Investment Property Portfolio as at 31 March 2018

Value	£24.81m
Initial Yield ("IY")	9.31%
Reversionary Yield ("RY")	11.35%
Equivalent Yield ("EY")	10.67%
Rent passing per annum*	£2.44m
Market Rent per annum*	£2.80m

*Net of head rents payable

Value Range	No. of Properties	Value £m	EY
£0 - £100k	40	2.66	10.68
£101k - £200k	25	3.71	9.96
£201k - £500k	33	10.65	10.29
£501k - £1m	7	5.44	11.62
£1m +	2	2.35	11.34
Total	**107**	**24.81**	**10.67**

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. At the period end the average property value was £232,000 and the median was £150,000. The portfolio included 160 residential units. Of these, 74 were marketed for rent on Assured Shorthold Tenancies, with the remainder being subject to long leases. The residential element of the portfolio has been valued at £4.04 million and the average value of the AST units was £55,000.

During the period like-for-like rental income decreased by 1.7%, and Market Rent increased by 1.1%.

Net Asset Value ("NAV")

At the end of the period NAV was at £32.0 million or £0.39 per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2017: £35.6 million, £0.42 per share).

The Group held £2.0 million of cash at the end of the period.

Operating Results

The Group made a loss before tax for the period on an IFRS basis of £2.87 million (or 3.48 pps), compared with a loss of £0.02 million (0.03 pps) for the six months to 31 March 2017 and a loss of £0.86 million (1.04 pps) for the full year to 30 September 2017.

The portfolio achieved gross rental income for the six months to 31 March 2018 of £2.25 million, compared with £3.31 million for the half year to 31 March 2017. This reduction primarily reflected the sale of property assets during the intervening 12 months.

Property operating expenses during the period were £1.20 million (six months to 31 March 2017: £0.91 million). These included bad debts, property repairs and maintenance, non-recoverable VAT, and local authority charges in respect of void properties. The increase in operating costs primarily reflects the repairs and leasing

Directors' Review

costs required to prepare properties for sale. Further detail of property operating expenses is contained in note 3 to the financial statements.

Administrative expenses were £0.50 million during the period (six months to 31 March 2017: £0.97 million). This primarily reflects lower investment management fees following the expiry of the minimum fee which was payable until July 2017. Further detail of administration expenses can be found in Note 5 to the financial statements.

The IFRS result reflected the realised gains and losses on the sales of properties, after execution costs (see note 4 to the financial statements), together with the movement in fair value of the property portfolio. Sales costs incurred during the period reflected 2.2% of the sales recognised (six months to 31 March 2017: 5.0%). This fall was the result of selling larger properties and portfolios, and a greater utilisation of the private treaty market.

In monitoring operational performance, the Board considers Adjusted Operating Profit. This measure excludes realised and unrealised gains and losses on investment properties and expenditure items considered to be of a non-recurring nature or not in line with the trading activities of the Group, as set out in the table below. The Adjusted Operating Profit for the period was £0.14 million (or 0.16 pps), compared with £0.92 million (1.11 pps) for the six months to 31 March 2017 and £1.26 million (1.52 pps) for the year to 30 September 2017.

The table below summarises the adjustments made between Profit before tax and Adjusted Operating Profit.

	31 March 2018 £000	31 March 2017 £000	30 Sept 2017 £000
Loss before tax (IFRS)	**(2,870)**	(23)	(858)
Movement in the fair value of the portfolio	**2,103**	265	689
Loss on disposal of Investment properties	**902**	552	1,298
Non-recurring expenditure	**–**	125	128
Adjusted Operating Profit	**135**	919	1,257

The calculation remains consistent with previous periods.

Asset Management

We continue to focus on the effective management of our property assets, to maintain rental income and maximise sale values. The table below summarises our asset management activities during the period:

	Number	Aggregate Rent £	Premium/ (discount) to Market Rent
Commercial property lettings:	25	274,000	7.2%
Lease renewals:	17	150,000	4.8%
Rent reviews (open market and fixed):	22	301,000	7.1%

Vacant properties	Aggregate Market Rent £	Void Rate
31 March 2018	593,000	13.7%
30 September 2017	727,000	12.9%
Change	(134,000)	+0.8%

Deposits held for commercial units, % of quarterly rent roll	46%

Financing

During the period, the Group operated using loan facilities provided by HSBC Bank plc ("HSBC"). The facilities as at 31 March 2018 are set out below.

Borrower	NOS 4 Limited	NOS 6 Limited	Total
Amount Outstanding	£9.9m	£0.0m	£9.9m
Margin	2% above 3–month LIBOR		
Default ICR Covenant	120%		
Default LTV Covenant	70%		
Cash Sweep Covenant	65%		
Amortisation	1.0% pq for 2 years from November 2016		
Expiry Date	31 December 2019		

The two facilities provided by HSBC are 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.

No changes were made to the terms of the loan agreements during the period. However, during the period the Group utilised £7.4 million of cash in order to facilitate the release of £6.1 million of property from the HSBC loan security pool. All cash utilised was from accounts under the control of HSBC, primarily the result of asset sales. This enhanced the Group's liquidity whilst reducing future financing costs.

The proceeds of sales (net of sale costs) of properties within the security pools are applied to reducing the loan balance. At 31 March 2018 the debt outstanding was £9.9 million (30 September 2017: £30.9 million). As at the date of this report, the outstanding loan balance had fallen further to £8.2 million.

At 31 March 2018 the Group held £2.0 million of cash (30 September 2017: £10.5 million) and property valued at £5.8 million with no debt secured against it (30 September 2017: £0.85 million). The cash held relates to sales proceeds to be applied to loan repayment and that which is required for working capital.

The Group's overall LTV at 31 March 2018 was 20% (30 September 2017: 36.5%).

Dividend

In line with the Group'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 Board will consider at the end of the current financial year whether it is appropriate to continue to adopt the Going Concern basis, in the light of progress with the property sales programme.

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 2017 (available on the Group'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 the property portfolio
- Information technology systems and data security
- Financial and property market conditions

The directors and the Group's investment advisor continue to operate a range of governance arrangements and internal controls to mitigate risks to the business. These are set out in the 2017 Annual Report.

The Group does not consider financing to be a material risk given the progressive reduction in the outstanding debt and the end-date of the loan facility, 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. Whilst the Group is exposed to the risk of non-payment of trade receivables by its tenants, the directors consider that this does not comprise an undue concentration of credit risk, as the risk is spread across a large number of tenants, retail occupations and geographical areas. The level of arrears is monitored continually by the Group's asset managers and is 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 24 May 2018.

S J East
Director

Independent Review Report

to The Local Shopping REIT plc

Conclusion

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 2018 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.

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 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

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 International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 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.

The purpose of our review work and to whom we owe our responsibilities

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 DTR of 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.

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

24 May 2018

Condensed Consolidated Income Statement

for the six months ended 31 March 2018

	Note	Unaudited Six months ended 31 March 2018 £000	Unaudited Six months ended 31 March 2017 £000	Audited Year ended 30 September 2017 £000
Gross rental income		**2,250**	3,308	6,023
Property operating expenses	3	**(1,200)**	(914)	(1,968)
Net rental income		**1,050**	2,394	4,055
Loss on disposal of investment properties	4	**(902)**	(552)	(1,298)
Loss on change in fair value of investment properties	9	**(2,103)**	(265)	(689)
Administrative expenses	5	**(552)**	(966)	(1,738)
Operating profit before net financing costs		**(2,507)**	611	330
Financing income	6	**1**	4	5
Financing expenses	6	**(364)**	(638)	(1,193)
Loss before taxation		**(2,870)**	(23)	(858)
Tax	7	**–**	–	–
Loss for the financial period from continuing operations		**(2,870)**	(23)	(858)
Loss for the financial period attributable to equity holder of the Company		**(2,870)**	(23)	(858)
Basic and diluted loss per share on loss for the financial period		**(3.48)p**	(0.03)p	(1.04)p
Basic and diluted loss per share on continuing operations for the period	11	**(3.48)p**	(0.03)p	(1.04)p

Condensed Consolidated Statement of Comprehensive Income for the six months ended 31 March 2018

	Unaudited Six months ended 31 March 2018 £000	Unaudited Six months ended 31 March 2017 £000	Audited Year ended 30 September 2017 £000
Loss for the period	**(2,870)**	(23)	(858)
Total comprehensive loss for the period	**(2,870)**	(23)	(858)
Attributable to:			
Equity holders of the parent Company	**(2,870)**	(23)	(858)

Condensed Consolidated Balance Sheet

as at 31 March 2018

	Note	Unaudited 31 March 2018 £000	Unaudited 31 March 2017 £000	Audited 30 September 2017 £000
Non-current assets				
Investment properties	9	25,236	65,897	54,613
Total non-current assets		25,236	65,897	54,613
Current assets				
Trade and other receivables		6,099	7,530	2,143
Investment properties held for sale		10,825	277	1,280
Cash		1,968	7,361	10,455
Total current assets		18,892	15,168	13,878
Total assets		44,128	81,065	68,491
Non-current liabilities				
Interest bearing loans and borrowings	10	(9,353)	(40,292)	(29,462)
Finance lease liabilities		(429)	(443)	(431)
Total non-current liabilities		(9,782)	(40,735)	(29,893)
Current liabilities				
Interest bearing loans and borrowings	10	(392)	(1,668)	(1,209)
Trade and other payables		(1,986)	(3,087)	(2,600)
Total current liabilities		(2,378)	(4,755)	(3,809)
Total liabilities		(12,160)	(45,490)	(33,702)
Net assets		31,968	35,575	34,789
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		8,097	11,704	10,918
Total attributable to equity holders of the Company		31,968	35,575	34,789

Condensed Consolidated Statement of Cash Flows for the six months ended 31 March 2018

	Note	**Unaudited Six months ended 31 March 2018 £000**	Unaudited Six months ended 31 March 2017 £000	Audited Year ended 30 September 2017 £000
Operating activities				
Loss for the financial period		**(2,870)**	(23)	(858)
Adjustments for:				
Loss on change in fair value of investment properties	9	**2,103**	265	689
Net financing costs	6	**363**	634	1,188
Loss on disposal of investment properties	4	**902**	552	1,298
Employee benefit trust shares vesting		**49**	49	98
		547	1,477	2,415
Increase in trade and other receivables		**(3,965)**	(5,436)	(49)
Increase /(decrease) in trade and other payables		**(689)**	833	388
		(4,107)	(3,126)	2,754
Interest paid		**(278)**	(616)	(1,087)
Bank facility fees paid		**–**	(12)	–
Loan arrangement fees paid		**–**	(257)	(280)
Interest received		**1**	4	5
Net cash flows from operating activities		**(4,384)**	(4,007)	1,392
Investing activities				
Proceeds from sale of investment properties		**16,903**	9,142	18,373
Acquisition of and improvements to investment properties		**(78)**	(257)	(514)
Cash flows from investing activities		**16,825**	8,885	17,859
Net cash flows from operating activities and investing activities		**12,441**	4,878	19,251
Financing activities				
Repayment of borrowings		**(20,928)**	(8,517)	(19,796)
Cash flows from financing activities		**(20,928)**	(8,517)	(19,796)
Net decrease in cash		**(8,487)**	(3,639)	(545)
Cash at beginning of period		**10,455**	11,000	11,000
Cash at end of period		**1,968**	7,361	10,455

Condensed Consolidated Statement of Changes in Equity for the six months ended 31 March 2018

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 30 September 2016	18,334	3,773	1,764	11,678	35,549
Total comprehensive loss 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	**–**	**–**	**–**	**–**	**–**
At 31 March 2017	18,334	3,773	1,764	11,704	35,575
Total comprehensive loss for the period					
Loss for the period	–	–	–	(835)	(835)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	49	49
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**
At 30 September 2017	18,334	3,773	1,764	10,918	34,789
Total comprehensive loss for the period					
Loss for the period	–	–	–	(2,870)	(2,870)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	49	49
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**
At 31 March 2018	**18,334**	**3,773**	**1,764**	**8,097**	**31,968**

Notes to the Half Year Report

for the six months ended 31 March 2018

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 2017 (with which they should be read in conjunction).

The comparative figures for the financial year ended 30 September 2017 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 strategy review in July 2013 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 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Bad debt charge	**(106)**	(151)	(353)
Head rent payments	**(12)**	(8)	(31)
Repairs	**(437)**	(158)	(343)
Business rates and council tax	**(130)**	(155)	(245)
Irrecoverable service charge	**(23)**	(53)	(160)
Utilities	**(60)**	(36)	(66)
Insurance	**(21)**	(26)	(92)
Managing agent fees	**(113)**	(133)	(242)
Leasing costs	**(159)**	(127)	(231)
Legal & professional	**(72)**	(27)	(73)
EPC amortisation, abortives, and miscellaneous	**(67)**	(40)	(132)
Total property operating expenses	**(1,200)**	(914)	(1,968)

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.

4. Property disposals

	Six months ended 31 March 2018 Number	Six months ended 31 March 2017 Number	Year ended 30 September 2017 Number
Number of sales	**46**	63	142
	£000	£000	£000
Average value	**376**	151	136
Sales			
Total sales	**17,277**	9,496	19,287
Carrying value	**(17,805)**	(9,570)	(19,671)
Loss on disposals before transaction costs	**(528)**	(74)	(384)
Transaction costs			
Legal fees	**(114)**	(139)	(307)
Agent fees, marketing and brochure costs	**(236)**	(284)	(499)
Disbursements	**(2)**	(4)	(23)
Non-recoverable VAT (on non-opted and residential elements)	**(22)**	(51)	(85)
Total transaction costs	**(374)**	(478)	(914)
Loss on disposals after transaction costs	**(902)**	(552)	(1,298)
Transaction costs as percentage of sales value	**2.2%**	5.0%	4.7%

Notes to the Half Year Report

for the six months ended 31 March 2017

5. Administrative expenses

	Six months ended 31 March 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Investment manager fees*	**(304)**	(513)	(918)
Legal and professional	**(51)**	(98)	(145)
Tax and audit	**(57)**	(56)	(116)
Remuneration costs**	**(99)**	(93)	(187)
Other	**(19)**	(26)	(44)
Irrecoverable VAT on administration expenses ***	**(22)**	(55)	(200)
December 2016 general meeting costs	**–**	(125)	(128)
Total administrative expenses	**(552)**	**(966)**	**(1,738)**

* Investment management fees have reduced following the ending of the minimum investment management fee which fell away in July 2017 (see note 15).

** Remuneration costs include £49,000 (30 September 2017 : £ 98,000, 31 March 2017 ; £49,000) 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 overheads is not fully recoverable.

6. Net financing costs

	Six months ended 31 March 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Interest receivable	**1**	4	5
Financing income	**1**	4	5
Bank loan interest	**(278)**	(545)	(961)
Amortisation of loan arrangement fees	**(58)**	(67)	(181)
Head rents treated as finance leases	**(14)**	(14)	(27)
Bank facility fees	**(14)**	(12)	(24)
Financing expenses	**(364)**	(638)	(1,193)
Net financing costs	**(363)**	(634)	(1,188)

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 2017	54,613
Additions	78
Disposals	(17,805)
Reduction in head lease value	(2)
Fair value adjustments	(2,103)
Movement on investment properties held for sale	(9,545)
At 31 March 2018	**25,236**

The investment properties have all been revalued to their fair value at 31 March 2018.

For the Group as a whole Allsop LLP, a firm of independent chartered surveyors, valued the Group's property portfolio at 31 March 2018 and 30 September 2017, and at 31 March 2017 and 30 September 2016. 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. The valuations were undertaken in accordance with the Royal Institution 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 2018 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	31 March 2018 £000	31 March 2017 £000	30 September 2017 £000
Portfolio valuation *	**35,632**	65,731	55,462
Investment properties held for sale	**(10,825)**	(277)	(1,280)
Head leases treated as investment properties held under finance leases in accordance with IAS 17	**429**	443	431
Total per Consolidated Balance Sheet	**25,236**	65,897	54,613

* Revalued assets and held for sale at net realisable value

Notes to the Half Year Report

for the six months ended 31 March 2017

10. Interest-bearing loans and borrowings

	31 March 2018 £000	31 March 2017 £000	30 September 2017 £000
Non-current liabilities			
Secured bank loans	**9,556**	40,667	29,723
Loan arrangement fees	**(203)**	(375)	(261)
	9,353	40,292	29,462
Current liabilities			
Current portion of secured bank loans	**392**	1,668	1,209

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 attributable to ordinary shares

	Six months ended 31 March 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Loss for the financial period	**(2,870)**	(23)	(858)

Weighted average number of shares

	31 March 2018 Number 000	31 March 2017 Number 000	30 September 2017 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 2018 Number 000	31 March 2017 Number 000	30 September 2017 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 2018 £000	31 March 2017 £000	30 September 2017 £000
Net assets per Consolidated Balance Sheet	**31,968**	35,575	34,789
Net asset value per share	**£0.39**	£0.43	£0.42

13. Derivative financial instruments

Derivative financial instruments were in the past held by the Group in the form of 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"). In April 2018 Internos changed its name to Principal Real Estate Europe Limited ("Principal"). Under this agreement the Company pays to Principal:

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 fell 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 Principal received a fee of £304,000 (September 2017: £918,000, March 2017: £513,000).

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