the
Local Shopping
REIT plc

Half Year Report

31 March 2016

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.

Contents

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

Highlights

- Recurring profit* for the period of £0.54m or 0.66 pence per share ("pps") (H1 2015: £0.44m or 0.53 pps).
- Profit for the financial period of £0.423m or 0.52 pps (H1 2015: £0.11m or 0.13 pps).
- Portfolio valued at 31 March 2016 at £76.7m, reflecting an equivalent yield (excluding the residential element) of 9.5% (30 September 2015: £81.2m, with an equivalent yield of 9.3%).
- Net Asset Value (NAV): £35.3m or 43 pps (30 September 2015: £34.9m or 42 pps).
- Total net debt (taking account of cash reserves) of £41.19m, reflecting a group LTV of 53.7% (30 September 2015 £42.95m, LTV 52.9%).
- Debt repayment during the half-year of £2.45m.

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

Directors' Review

The Company has continued to perform robustly in a challenging environment for the retail sector.

Market Context

The consistent, albeit modest, improvement in the general economy continued during the period, with UK gross domestic product increasing by 0.6% in Quarter 4 2015 and by a further 0.4% in Quarter 1 2016 (source: Office for National Statistics). At 31 March 2016 UK GDP was 2.1% higher than at the same point in 2015. Activity in the retail market also grew, with the quantity of retail goods bought estimated to have increased by 2.7% in the year to 31 March 2016, with March 2016 showing an increase of 0.8%. Despite the increased volume of goods bought, the amount spent in retail outlets reduced during the same 12-month period, indicating that consumer demand was maintained at least in part by price reductions.

Local and independent retailers, who, along with local restaurants and cafes, make up the bulk of our tenants, continue to show resilience and optimism, as recorded by The Association of Convenience Stores. The business rates relief aimed at small businesses announced in the recent budget is likely to assist around half of our tenants, although the impact on traders of the national living wage and pensions auto-enrolment remain uncertain.

The UK property investment market continued to strengthen during the Autumn of 2015. However, market commentators have pointed to a reduction in overall deal activity in recent weeks, with uncertainty regarding the outcome of the UK's EU referendum often cited as a contributory factor. This appears to have produced a dampening effect on the market for local shopping assets in non-core locations. During the period the market for local shopping investments continued to mature. Investors and retail occupiers are demonstrating an increasingly sophisticated approach in analysing prospective local retail locations, with more multiple retailers with stronger covenants entering selected locations.

Operating Results

Profit before tax for the six-month period was £0.423 million (or 0.52 pps), compared with a profit of £0.108 million (0.13 pps) for the six months to 31 March 2015 and a profit of £0.02 million (0.02 pps) for the full year to 30 September 2015.

The recurring profit was £0.54 million (or 0.66 pps), compared with £0.44 million (0.53 pps) for the six months to 31 March 2015 and £0.23 million (0.28 pps) for the year to 30 September 2015.

During the six months to 31 March 2016, in accordance with the Group's investment policy, we completed sales of eighteen freehold properties. The aggregate gross sale price was £4.12 million, 1.72% under their preceding valuation. At 31 March the portfolio comprised 336 properties with a net market rent of £7.67 million.

The portfolio achieved gross rental income for the six months to 31 March 2016 of £3.60 million, compared with £3.96 million for the half year to 31 March 2015. This reduction directly reflected the sale of property assets during the intervening period.

Property operating expenses were £0.90 million, compared with £0.66 million in the equivalent period in 2014-15. This reflected the need to undertake further repair projects which have been expensed in the income statement.

Other cost items remained broadly in line with their equivalents in 2014-15.

Profit before tax reflected the movement in fair value of the property portfolio, which was valued at £76.67 million at 31 March 2016 (30 September 2015: £81.2 million).

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

	31 March 2016 £000	31 March 2015 £000	30 Sept 2015 £000
Profit/(loss) before tax (IFRS)	423	108	20
Movement in the fair value of the portfolio	439	699	1,638
Movement in the fair value of the interest rate swaps held	(2,294)	(611)	(1,728)
Loss/(profit) on disposal of investment properties	216	26	7
Non-recurring (income)/costs & net resolution of aged balances	–	–	65
Adjustment to portfolio sale proceeds	–	216	225
Buy-out of Swap contracts	1,758		
Recurring profit on continuing operations	542	438	227

The calculation remains consistent with previous periods.

Revaluation

The investment property portfolio was revalued at £76.67 million as at 31 March 2016, reflecting an equivalent yield (excluding the residential element) of 9.5% (30 September 2015: £81.2 million, equivalent yield 9.3%). The movement during the period reflected market movements as well as the reduction in portfolio value resulting from individual property sales. On a like-with-like basis, the portfolio value decreased by £0.11 million (0.14%) from the 30 September 2015 equivalent of £76.78m.

As at 31 March 2016, the portfolio comprised 336 properties with an annual rental income, net of head rents payable, of £7.10 million, compared with 353 properties and £7.92 million at 30 September 2015. The portfolio included 1,038 letting units (30 September 2015: 1,190 letting units).

Investment Property Portfolio as at 31 March 2016

Value	£76.67m
Initial Yield ("IY")	9.00%
Reversionary Yield ("RY")	9.80%
Equivalent Yield ("EY")	9.50%
Rent per annum*	£7.10m
Market Rent per annum*	£7.67m

*Net of head rents payable

Value Range	No. of Properties	Value £m	EY
£0 - £100k	125	8.16	9.89%
£101k - £200k	101	13.47	8.20%
£201k - £500k	81	24.49	8.06%
£501k - £1m	21	15.07	8.07%
£1m - £3m	7	12.24	7.64%
£3m +	1	3.25	5.19%
Total	**336**	**76.67**	**9.50%**

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 is £228,200 and the median is £122,500. The portfolio includes 219 residential units. The residential element of the portfolio has been valued at £11.39 million, typically based on 85% of vacant possession value. The average value of the residential units in our portfolio is £52,000.

Portfolio — Like-for-like Comparison

	31 March 2016	30 Sept 2015	Change
Value	£76.67m	£76.78m	–0.14%
IY	9.00%	8.79%	21 bps
RY	9.80%	9.79%	1bps
EY	9.50%	9.40%	10bps
Rent pa*	£7.10m	£7.05m	0.71%
Market Rent pa*	£7.67m	£7.72m	–0.66%

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

*Net of head rents payable

Directors' Review

The portfolio recorded a 0.14% fall in value on a like-for-like basis during the period, with the equivalent yield (excluding the residential element) moving to 9.50% (30 September 2015: 9.40%).

Property yields across the portfolio continue to be highly subject to regional influence, as illustrated by the table below.

Region	31 March 2016 EY	30 September 2015 EY	Change bbs
East Anglia	**10.74%**	10.68%	+6
London	**6.06%**	6.25%	–19
South East	**8.31%**	8.25%	+6
South West	**9.28%**	9.19%	+9
West Midlands	**9.83%**	9.72%	+11
Wales	**11.76%**	11.57%	+19
Yorks & Humberside	**10.44%**	10.39%	+5
East Midlands	**8.80%**	8.92%	–11
North	**10.76%**	10.77%	–1
Scotland	**10.24%**	9.93%	+31
North West	**10.29%**	10.01%	+28

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

During the period like-for-like rental income increased by 0.71%, and Market Rent decreased by 0.66%.

Net Asset Value ("NAV")

During the period NAV rose by 1.21% to £35.3 million or £0.43 per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2015: £34.9 million, £0.42 per share).

The Group held £12.29 million of cash at the end of the period.

Asset Management

We continue to take a flexible approach to leasing, reflecting norms in the local occupier market. During the period we let twenty-five unoccupied units at a combined rent of £173,500 per annum, against aggregate Market Rent of £186,500. Six of these incorporated stepped rent increases whereby the aggregate initial rent will rise to exceed the current Market Rent within the first two years of the leases. At 31 March 2016 sixteen further units were under offer for letting at a combined rent of £168,600.

Rent reviews continued to be highly subject to local and regional factors. Reviews were completed on seven units resulting in an increase on the previous aggregate rents of £8,000 per annum, £2,000 per annum above combined Market Rents. Leases were renewed with nineteen existing tenants. These resulted in a net reduction in their combined rental income of £24,600 (12.04%), which was £13,700 (7.09%) below Market Rent, although this shortfall may be recovered in part through stepped rent provisions as referred to above. We agreed one surrender and re-grant of a lease during the period, which maintained the rent at the previous level, which was 25.67% ahead of Market Rent.

The overall void rate within the portfolio at 31 March 2016 was 10.78% of portfolio Market Rent (31 March 2015 13.18%; 30 September 2015: 10.47%). The Market Rent for vacant properties at 31 March 2016 was £0.835 million. The Market Rent for void commercial properties was £0.69 million, whilst £0.15 million was attributable to residential units.

We continue to be vigilant on rent defaults, taking back units for re-letting as soon as practicable where we consider it unlikely that outstanding rent will be paid within a reasonable timescale.

We continue to seek rent deposits for new lettings or assignments wherever appropriate. As at 31 March 2016, we held deposits in respect of commercial tenants equating to 24.2% of our quarterly rent roll (30 September 2015: 23.0%). This provides us with a measure of protection against tenant default which is not generally available when letting units to national retailers. 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 2016, the facilities were as set out below.

Loan	Amount Outstanding £m	LTV Covenant	Amortisation	Termination Date
HSBC NOS 4 Loan	43.26m	82.5%	0.45% per 1/4 for LTV 65%+	30 April 2018
HSBC NOS 6 Loan	10.22m		0.25% per 1/4 for LTV 60–65%	
			Nil below 60% LTV	
Total	**53.48m**			

These facilities expire on 30 April 2018.

At 31 March 2016 the debt outstanding was £53.5 million (30 September 2015: £56.0 million).

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. At each testing date during the period the loans were determined to be compliant.

The loans also feature a loan to value ("LTV") ratchet which unlocks lower interest margins and reduced amortisation requirements at lower levels of gearing.

Loan repayments of £2.5 million were made during the period. At 31 March 2016 the loan to value ("LTV") ratio on the loans was 72.4%, compared with the default LTV level of 82.5%. At the period end the Group held £12.29m of cash (30 September 2015: £12.74 million) and £5.0 million of property with no debt secured against it. As a result, the Group's overall LTV was 53.7%.

During January 2016 the Group utilised £1.76 million of its cash reserves to cancel its interest rate hedging facilities, the Directors having decided that it was in the Group's best interests to do so. Following the termination of the interest rate swaps all the Group's debt is floating at a margin of 2% above 3 month LIBOR. This implies a cost of debt, including margin, of 2.34% at 31 March 2016.

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.

Directors' Review

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 2015 (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.

Outlook

Whilst the uncertainty over the UK's future relationship with the European Union appears to have dampened property investment activity, we do not believe that it is likely to have a material effect on our occupier base. We expect our occupier businesses to perform robustly and our portfolio to continue to be income-generative. With the removal of the interest rate hedging agreements and extent of our cash reserves the Directors believe that the Company's financial position is likely to be increasingly healthy.

During the last six months we have been in detailed negotiations with a party for the sale of the majority of the Company's remaining property assets. However, these discussions have not led to a transaction. Our overall aim remains to execute the investment strategy adopted by shareholders in July 2013, in pursuit of which we have now sold £93.9m of property. Whilst we remain open to large portfolio transactions, we will focus on our programme of individual property sales, particularly of uncharged assets, in order to further reduce the LTV ratio of the bank facility and the Company's overall gearing. This will enhance cover over the banking covenants and unlock lower amortisation and interest margins. However, in the absence of a sale of the bulk of the properties sufficient to enable us to speedily dispose of the remainder at sensible prices, we will not continue the individual property sales programme below the level at which running the portfolio becomes unviable.

The Directors will continue to keep the dividend policy under review and will consider reinstating distributions when this is justified by the Company's overall financial position and the prospects for ongoing income generation. The current recurring income (adjusted for an estimate of the reduced cost of debt and property sales during the period) implies a recurring EPS of 2.6 pps and an EPS yield of 9% on the closing mid-market price of 29.29p on day prior to this report. However, future recurring income may be affected by factors such as further asset sales and changes in the Company's cost of debt.

S J East
Chairman

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 18 May 2016.

S J East
Chairman

KPMG LLP: 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 2016 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 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Leech
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
18 May 2016

Condensed Consolidated Income Statement

for the six months ended 31 March 2016

	Note	Unaudited Six months ended 31 March 2016 £000	Unaudited Six months ended 31 March 2015 £000	Audited Year ended 30 September 2015 £000
Gross rental income		**3,601**	3,962	7,664
Property operating expenses		**(899)**	(658)	(1,960)
Net rental income		**2,702**	3,304	5,704
Loss on disposal of investment properties		**(216)**	(26)	(7)
Loss on change in fair value of investment properties	6	**(439)**	(699)	(1,638)
Administrative expenses		**(831)**	(1,020)	(1,699)
Share of results from jointly controlled entities	7	**–**	(3)	–
Operating profit before net financing costs		**1,216**	1,556	2,360
Financing income*	3	**12**	8	18
Financing expenses*	3	**(1,341)**	(2,067)	(4,086)
Movement in fair value of derivatives	3	**536**	611	1,728
Profit before taxation		**423**	108	20
Tax	4	**–**	–	–
Profit for the financial period from continuing operations		**423**	108	20
Profit for the financial period attributable to equity holder of the Company		**423**	108	20
Basic and diluted profit per share for the financial period		**0.52p**	0.13p	0.02p
Basic and diluted profit per share on continuing operations for the period	9	**0.52p**	0.13p	0.02p

*Excluding movements in the fair value of derivatives

Condensed Consolidated Statement of Comprehensive Income for the six months ended 31 March 2016

	Unaudited Six months ended 31 March 2016 £000	Unaudited Six months ended 31 March 2015 £000	Audited Year ended 30 September 2015 £000
Profit for the period	**423**	108	20
Total comprehensive income for the period	**423**	108	20
Attributable to:			
Equity holders of the parent Company	**423**	108	20

Condensed Consolidated Balance Sheet

as at 31 March 2016

	Note	Unaudited 31 March 2016 £000	Unaudited 31 March 2015 £000	Audited 30 September 2015 £000
Non-current assets				
Investment properties	6	**76,406**	82,935	79,468
Investments in jointly controlled entities	7	**–**	40	–
Total non-current assets		**76,406**	82,975	79,468
Current assets				
Trade and other receivables		**2,208**	1,722	2,028
Investment properties held for sale		**840**	2,645	2,387
Cash		**12,289**	18,556	12,740
Total current assets		**15,337**	22,923	17,155
Total assets		**91,743**	105,898	96,623
Non current liabilities				
Interest bearing loans and borrowings	8	**(52,283)**	(63,113)	(54,688)
Finance lease liabilities		**(572)**	(672)	(659)
Derivative financial instruments	11	**–**	(1,079)	–
Total non-current liabilities		**(52,855)**	(64,864)	(55,347)
Current liabilities				
Interest bearing loans and borrowings	8	**(956)**	(1,153)	(1,001)
Trade and other payables		**(2,657)**	(2,609)	(3,129)
Derivative financial instruments	11	**–**	(2,332)	(2,294)
Total current liabilities		**(3,613)**	(6,094)	(6,424)
Total liabilities		**(56,468)**	(70,958)	(61,771)
Net assets		**35,275**	34,940	34,852
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		**11,404**	11,069	10,981
Total attributable to equity holders of the Company		**35,275**	34,940	34,852

Condensed Consolidated Statement of Cash Flows for the six months ended 31 March 2016

	Note	Unaudited Six months ended 31 March 2016 £000	Unaudited Six months ended 31 March 2015 £000	Audited Year ended 30 September 2015 £000
Operating activities				
Profit for the financial period		**423**	108	20
Adjustments for:				
Loss on change in fair value of investment properties	6	**439**	699	1,638
Net financing costs	3	**793**	1,448	2,340
Loss on disposal of investment properties		**216**	26	7
Share of results of jointly controlled entities	7	**–**	3	–
		1,871	2,284	4,005
Decrease/(increase) in trade and other receivables		**(268)**	1,739	1,419
Decrease in trade and other payables		**(74)**	(710)	(147)
		1,529	3,313	5,277
Interest paid		**(1,739)**	(2,023)	(4,129)
Loan arrangement fees paid		**(4)**	–	(79)
Interest received		**12**	8	18
Net cash flows from operating activities		**(202)**	1,298	1,087
Investing activities				
Proceeds from sale of investment properties		**4,079**	2,126	5,143
Acquisition of and improvements to investment properties		**(124)**	(196)	(407)
Repayment of investment in jointly controlled entities	7	**–**	250	292
Cash flows from investing activities		**3,955**	2,180	5,028
Net cash flows from operating activities and investing activities		**3,753**	3,478	6,115
Financing activities				
Swap breakage costs		**(1,758)**	–	–
Repayment of borrowings		**(2,446)**	(584)	(9,037)
Cash flows from financing activities		**(4,204)**	(584)	(9,037)
Net (decrease)/increase in cash		**(451)**	2,894	(2,922)
Cash at beginning of period		**12,740**	15,662	15,662
Cash at end of period		**12,289**	18,556	12,740

Condensed Consolidated Statement of Changes in Equity for the six months ended March 2016

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 30 September 2014	18,334	3,773	1,764	10,961	34,832
Total comprehensive income for the period					
Profit for the period	–	–	–	108	108
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**
At 31 March 2015	18,334	3,773	1,764	11,069	34,940
Total comprehensive income for the period					
Loss for the period	–	–	–	(88)	(88)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Share based payments	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–**	**–**
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**

Notes to the Half Year Report

for the six months ended 31 March 2016

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 Conduct 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 2015 (with which they should be read in conjunction).

The comparative figures for the financial year ended 30 September 2015 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. Net financing costs

	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Interest receivable	12	8	18
Financing income excluding fair value movements	12	8	18
Fair value gains on derivative financial instruments (see note 13)	536	611	1,728
	548	619	1,746
Bank loan interest	(1,266)	(2,006)	(3,937)
Amortisation of loan arrangement fees	(58)	(44)	(100)
Head rents treated as finance leases	(17)	(17)	(49)
Financing expenses excluding fair value movements	(1,341)	(2,067)	(4,086)
Financing expenses	(1,341)	(2,067)	(4,086)
Net financing costs	(793)	(1,448)	(2,340)

4. Taxation

From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group is exempt from corporation tax on the profits and gains from its investment business from this date, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. The directors consider that all the rental income post 11 May 2007 originates from the Group's tax exempt business.

On entering the UK REIT regime, a conversion charge equal to 2% of the gross market value of properties involved in the property rental business, at that date, became due which was paid in full.

Due to the availability of losses no provision for corporation tax has been made in these accounts. The deferred tax asset not recognised relating to these losses can be carried forward indefinitely. It is not anticipated that these losses will be utilised in the foreseeable future.

Notes to the Half Year Report

for the six months ended 31 March 2016

5. Dividends

No dividends have been paid since December 2012.

6. Investment properties

	Total £000
At 1 October 2015	79,468
Additions	124
Disposals	(4,294)
Fair value adjustments	(439)
Movement on investment properties held for sale	1,547
At 31 March 2016	**76,406**

The investment properties have all been revalued to their fair value at 31 March 2016.

For the group as a whole Allsop LLP, a firm of independent chartered surveyors valued the group's property portfolio at 31 March 2016 and 30 September 2015, and at 31 March 2015 and 30 September 2014. 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 2016 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	31 March 2016 £000	31 March 2015 £000	30 September 2015 £000
Portfolio valuation	**76,674**	84,908	81,196
Investment properties held for sale	**(840)**	–	(2,387)
Head leases treated as investment properties held under finance leases in accordance with IAS 17	**572**	672	659
Total per Consolidated Balance Sheet	**76,406**	85,580	79,468

7. Investments in jointly controlled entities

The Group had the following investments in a jointly controlled entity:

	Ownership		
	31 March 2016	**31 March 2015**	**30 September 2015**
Gracechurch Commercial Investments Limited	0%	50%	0%

On 28 September 2011 an agreement was entered into with Gracechurch Commercial Investments Limited, a newly incorporated entity. The initial investment made was £500,000. The principal activity of the entity was to acquire properties for investment purposes. During 2014 the company disposed of all its properties and is was put into liquidation. The investment was carried in the balance sheet at its estimated net realisation after expenses of winding up. During the six months ended 30 September 2015 the final distribution was received from the liquidator.

	31 March 2016 £000	31 March 2015 £000	30 September 2015 £000
Cost			
At beginning of period	**–**	293	40
Distributions received	**–**	(250)	(40)
Provision for liquidation costs	**–**	(3)	–
At end of period	**–**	40	–

8. Interest-bearing loans and borrowings

	31 March 2016 £000	31 March 2015 £000	30 September 2015 £000
Non-current liabilities			
Secured bank loans	**52,527**	63,388	54,987
Loan arrangement fees	**(244)**	(275)	(299)
	52,283	63,113	54,688
Current liabilities			
Current portion of secured bank loans	**956**	1,153	1,001

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 0.45% of the balance outstanding on a quarterly basis, and the final balance is repayable in 2018.

Notes to the Half Year Report

for the six months ended 31 March 2016

9. Earnings per share

Basic earnings per share

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

Profit attributable to ordinary shares

	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Profit for the financial period	**423**	108	20

Weighted average number of shares

	31 March 2016 Number 000	31 March 2015 Number 000	30 September 2015 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.

10. Net asset value (NAV)

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

	31 March 2016 Number 000	31 March 2015 Number 000	30 September 2015 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 2016 £000	31 March 2015 £000	30 September 2015 £000
Net assets per Consolidated Balance Sheet	**35,275**	34,940	34,852
Net asset value per share	**£0.43**	£0.42	£0.42

Adjusted net asset value per share

	31 March 2016 £000	31 March 2015 £000	30 September 2015 £000
Net assets per Consolidated Balance Sheet	**35,275**	34,940	34,852
Fair value of derivative financial instruments	**–**	3,411	2,294
	35,275	38,351	37,146
Adjusted net asset value per share	**£0.43**	£0.46	£0.45

Notes to the Half Year Report

for the six months ended 31 March 2016

11. Derivative financial instruments

These are shown in the Consolidated Balance Sheet as follows:

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Value at 30 September 2015 £000
20,178 (paid down 31 October 2015)	16 July 2007	31 January 2017	4.85	(1,087)
22,500 (paid down 31 January 2016)	30 April 2013	29 July 2016	5.05	(823)
10,500 (paid down 31 January 2016)	30 April 2013	29 July 2016	5.05	(384)
				(2,294)
Cost charged to pay down swaps				1,758
Fair value movement taken to income statement				(536)
Value at 31 March 2016				**–**

The derivative financial instruments included in the above table are stated at their fair value based on quotations from the Group's bank.

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.

13. 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.
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 1.5% 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 £509,560 (September 2015 - £1,016,461 March 2015 - £509,000).

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