MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

HALF YEARLY REPORT

FOR THE PERIOD ENDED
30 JUNE 2011

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

CONTENTS

CHAIRMAN'S STATEMENT

This first half of 2011 has brought with it a difficult decision for the Board, but it is a course of action that we strongly believe is in the best interests of the Group's shareholders.

In many ways, the Group trades from a position of considerable strength. It operates well within all of its financial covenants, benefits from a strong cash flow and the assets continue to offer opportunities to add value. However, the Group has faced a persistent and considerable discount to NAV in recent years which, in the Board's opinion, undervalues the Company.

In the absence of being able to grow the Group meaningfully and, with that growth, be able to offer shareholders greater value and reduce the discount at which the Company's shares trade, the Board considers that the best course of action is to dispose of the Group's assets and return cash to shareholders, a view endorsed by shareholders at the extraordinary general meeting on 5 August 2011 at which the Company's investment objective was amended.

Marketing of some assets has begun, although the structure of the Group's finance is such that there is no pressure to undertake these disposals in a hurried manner. All of the Group's debt matures in January 2014 and this gives the Group time to undertake asset enhancement initiatives at several of the properties in order to maximise shareholder value.

Demand for European property remains focused on the larger, more stable markets (in the Eurozone region) and on core assets in established commercial locations. This has been reflected in the interest shown in the portfolio since the disposal programme was announced, with strong interest shown in assets such as Lyon and Düren in particular.

The Group's assets comprise a mixture of core and non-core holdings and, as a consequence, some will be more liquid than others. Reflecting this, over the first half of the year, the Group has seen the value of its property portfolio fall in euro terms by 3.1% over the half-year to €367.2 million in June 2011 from €379.0 million in December 2010. In sterling terms, however, currency movements have reversed this such that the value increased to £331.7 million as at 30 June 2011 (31 December 2010: £326.7 million), this change is reconciled in the table below:

Property Value as at December 2010	€379.0m	£326.7m
Valuation Movement	(€13.1m)	(£11.4m)
Currency Translation	-	£15.3m
Capital expenditure	€1.3m	£1.1m
Property Value as at June 2011	€367.2m	£331.7m

Whilst the strengthening of the euro over the period to 30 June 2011 has enhanced the sterling value of the property portfolio this is off-set by increases in the value of the Group's debt. Despite loan amounts remaining unchanged over the period, the debt (and associated fees) increased in sterling terms by £9.8 million to £213.7 million at 30 June 2011.

This property value increase would also have been further off-set by increases in the liability associated with the Group's foreign exchange hedge – were it not for the fact that £4.0 million has been used during the first half of the year to reduce the liability. The Manager's Report sets out how the contract has been changed, but overall the liability has decreased marginally to £35.7 million as at 30 June 2011 from £37.0 million as at 31 December 2010. The Board intends to continue to reduce the value of the capital element of the liability throughout the remaining life of the contract.

The liability from the Group's interest rate swaps has also decreased over the period to £3.5 million at 30 June 2011 (31 December 2010: £6.5 million). Overall, the Group had an aggregate mark-to-market liability of both foreign exchange and interest rate hedging contracts of £39.1 million (31 December 2010: £43.5 million).

Overall, the Group has seen almost no change in NAV over the period, with a fall of only 1p per share over the half-year to a figure of 278 pence per share as at 30 June 2011. The NAV per share is after taking into account all liabilities including those associated with the hedging contract.

The Group had an overall loan-to-value (LTV) ratio at the reporting date of 65.3% and circa £11.2 million of free cash resources. As discussed in the Manager's Report, as this LTV exceeded the 65% threshold after which a cash sweep operates, the Board has, post the period end, reduced debt to take the LTV below 65% and £1.5 million (€1.7 million) was utilised to do this.

The Group remained in compliance with the financial covenants associated with its bank facilities and foreign exchange contract, further details of which are given in the Manager's report.

A dividend has been declared for the first half of 2011 of 5 pence per share. However, shareholders should be aware that given the revised investment objectives for the Group there is no certainty that income distributions will continue to be made and these may be replaced by periodic returns of capital as the Company commences the orderly disposal of its assets.

The change in Group strategy does not affect the Board's view of the portfolio. The Group continues to benefit from a portfolio that offers long-term income and this income is, in the main, secured on tenants with substantial financial covenants.

In accordance with the revised investment objective to realise the Group's assets in an orderly manner, the Manager has been instructed to dispose of the portfolio with a view to returning cash to shareholders and maximising the values for our properties.

Crispian Collins
Chairman

MANAGER'S REPORT

Forward Looking Statement

This report has been prepared solely to provide additional information to enable shareholders to assess the Group's strategies and the potential for these strategies to succeed. The report should not be relied on by any other party or for any other purpose.

This Report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. These statements are made in good faith based on the information available to the Manager up to the time of its approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Group is exposed. Nothing in this report should be construed as a profit forecast.

Investment Objectives

Following the recent EGM, the Group's investment objectives have been revised.

The assets of the Group will be realised in an orderly manner, that is, with a view to achieving a balance between (i) returning cash to Shareholders at such times and from time to time and in such manner as the Board may (in its absolute discretion) determine; (ii) reducing the Group's existing liabilities; and (iii) maximising the disposal value of the Group's assets. The Board aims to complete the sale of all of the Group's assets by the end of 2013.

The Group may not make new acquisitions of real estate assets except where required to preserve and/or enhance the disposal value of its existing assets.

The Group will adopt a policy of progressively reducing its gearing and swap liabilities throughout the disposal programme.

Market Outlook

According to the May 2011 International Monetary Fund ("IMF") forecast, real GDP growth across the Eurozone is expected to increase marginally through 2011 and 2012 at annual rates of 1.6% and 1.8% respectively. The Group's core markets are expected to perform in line with the average, in the case of France, and quite strongly above in the case of Germany, which is forecast to see growth rates of 2.5% and 2.1% over the two-years.

However, the IMF also notes that there remain numerous risks to this outlook and the projected core stability is overshadowed at present by continued concerns over sovereign debt, the health of various European economies and other global issues and these continue to unsettle investors, as demonstrated by the extreme volatility of the stock markets over the summer period.

Property investment volume in Europe, according to CBRE, stood at circa €25.0 billion for Q2 2011, which was similar to that in the same quarter last year (€25.7 billion) but markedly down on Q1 2011 (€28.4 billion).

Investors have continued to concentrate on the French, German and Nordic regions and these collectively produced 50% of market transactions. France and Germany between them account for almost a third of the total market and transactions in France in particular increased by almost 30% quarter-on-quarter.

Continuing the pattern of the recent past, investor focus remains on core assets in established commercial locations and prime yield indices showed a marginal reduction over the second quarter to reflect this. Investor demand has been strong in the office sector with the German retail market also finding favour.

Whilst requirements have begun to widen to encompass strong regional locations, investors remain quite risk averse. With such uncertainty in world financial markets and concerns over economic growth, corporate profitability and consumer demand it seems unlikely that investors will be straying far away from these core requirements in the near future.

Portfolio Overview

The value of the property portfolio as at 30 June 2011 was £331.7 million (€367.2 million) representing a like-for-like fall over the half-year of 3.1% in Euro terms from the 31 December 2010 value of £326.7 million (€379.0 million).
The decline in the valuation includes a reduction in the value of the St Etienne property, in anticipation of the increase in the rate of Real Estate Transfer Tax applicable to the asset, as the building will be more than five-years old in July 2012.
The valuations have been performed by an independent valuer (CBRE) in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards and show the "Market Value" assuming an asset sale of each property and allow for acquisition costs incurred by purchasers.

MANAGER'S REPORT

The split of value between regions is illustrated below:

The portfolio produces a current annual rental income of £30.3 million (all derived from external customers), has a weighted average lease length of 7.6 years and, as can be seen from the summary of major tenants, provides accommodation to a variety of national and international occupiers.

Rank	Tenant	Location	Latest D&B Credit Rating	30 June 2011 Annual Rent	Proportion of Annual Contracted Rent
1	Casino	St Etienne	5AA2	£6.0m	20%
2	IBM	Nice	5A1	£3.3m	11%
3	Panrico	Spain	N3[1]	£3.2m	11%
4	NH Hoteles	Düsseldorf	2A2[2]	£2.5m	8%
5	Schenker Deutschland	Frankfurt	5AA2	£2.5m	8%
6	Jacobs Nederland	Leiden	5A1	£1.9m	6%
7	La Poste	Lyon	5A2	£1.7m	6%
8	Peek & Cloppenberg	Kaiserslautern	5AA2	£0.8m	3%
9	Hennes & Mauritz	Kaiserslautern	2A2[3]	£0.7m	2%
10	Real SB-Warenhaus GmbH	Celle	5AA1	£0.7m	2%
				£23.3m	77%

[1] Bank guarantee for 12-months rent held.
[2] Parent co -guarantee – 5A1 rating.
[3] Swedish parent company guarantee

Financing & Financial Covenants

At 30 June 2011 the Group had £213.7 million (€236.6 million) of debt outstanding. This sum comprises loans of £216.7 million (€239.9 million) net of reductions for pre-paid loan fees of £4.2 million (€4.6 million) and additions for deferred arrangement fees of £1.2 million (€1.3 million). All of the loans mature in January 2014.

As at 30 June 2011 the Group had an overall LTV ratio of 65.3% and the Group had approximately £18.4 million of cash of which circa £11.2 million (after taking into account creditors and commitments) is available to protect its LTV covenants, which are considered below.

Debt Facilities

All of the Group's debt is held with Lloyds Banking Group ("LBG"). The loan has a maximum LTV covenant of 75%, which will next be tested at 31 December 2011.

Other loan covenants include:

- In the event that the LTV is in excess of 65%, surplus operational income will be used to amortise the loan.
- If the LTV exceeds 60%, when properties are sold the debt pay-down required is equal to 120% of the allocated loan for the property sold.
- The loan is subject to an interest cover ratio of 1.30x.

The loan carries a margin of 2.75%, reducing to 2.25% if the LTV is below 60%.

As the 30 June 2011 LTV exceeded the 65% threshold, the Board elected to paydown debt immediately after the half-year end to prevent the cash sweep operating.

Consequently, debt was reduced by £1.5 million (€1.7 million) to £215.2 million (€238.2 million). Following this paydown the LTV of the Group is 64.9% and this provides headroom of circa 13.5% based on 30 June 2011 values.

Interest Rate Hedging

The Group utilises a range of interest rate swaps to mitigate the effect of movements in interest rates on the results of the Group. These provide an average swap rate of 2.76% and all expire in January 2014. As at 30 June 2011 these swaps represented a liability of £3.5 million.

MANAGER'S REPORT

Foreign Exchange Covenants

The Group uses foreign exchange rate derivative contracts to mitigate the effect of movements in exchange rates. It has a single Cross Currency Swap ("CCS") contract with LBG, which consists of two elements:

- a cash-flow hedge whereby €5.0 million are exchanged for £3.7 million on a quarterly basis until June 2014; and
- a fair-value hedge for €127.0 million to be exchanged for £85.8 million due in June 2014.

Over the first half of 2011, £4.0 million has been utilised to reduce the liability associated with this contract and the capital element has been reduced. The table illustrates the change, and also shows the liability that the contract would have had at 30 June 2011 had no reduction taken place. This shows that the £4.0 million expenditure has resulted in a saving, through a reduced liability, of £4.7 million.

Date	Capital Element	Liability Dec-2010	Liability Jun-2011
31-Dec-10	€150.0m : £101.3m	£37.0m	£40.4m
30-Jun-11	€127.0m : £85.8m	N/A	£35.7m

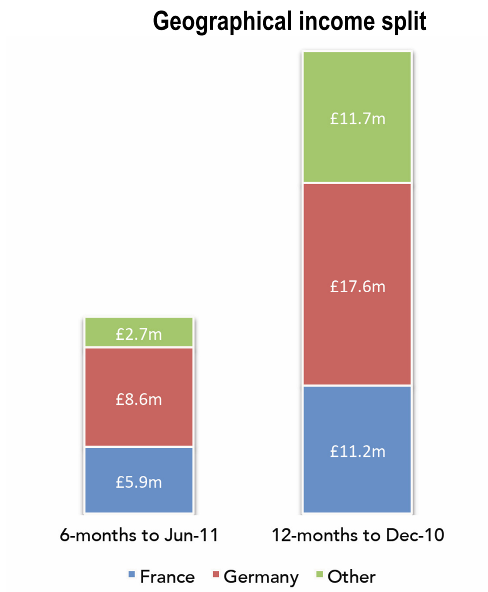
This liability is secured on all the assets of the Group and is subject to two financial covenants, which require:

- the net asset value ("NAV") of the Group (excluding the value of the foreign exchange swap contract) to be greater than twice the liability under the foreign exchange swap contract; and
- the NAV to be at least £75.0 million in any event.

As at 30 June 2011 the adjusted NAV for this purpose was £135.9 million. The Group is therefore in compliance with its covenants.
Additionally, as is standard, there exists a cross default clause, such that a breach of covenant within the debt facilities of the Group is an event of default under the CCS.
If there were to be a breach of any of the above covenants then LBG, the counter-indemnity party, could call for the foreign exchange hedging contract to be settled in cash. This would trigger the payment of the value of the contract, which at 30 June 2011 was a liability of £35.7 million. The cost of this potential liability will vary as exchange rates change.

Asset Management

The portfolio income is derived from a broad range of properties, which are located in established commercial locations and are occupied by a wide variety of tenants on the basis of comparatively long terms, when compared to typical European leases.



MANAGER'S REPORT

Vacancy levels within the portfolio have reduced to 6.5% overall (31 December 2010: 9.6%). All material voids in the portfolio occur within the Europort property in Frankfurt where the vacancy level has decreased substantially to 24% from 36% as at 31 December 2010. Activity on the estate includes:

- The lettings to Schenker of buildings H and I, which total over 4,000 sqm of office accommodation and are let until December 2015, have completed following the substantial refurbishment of both buildings.
- Federal Express have extended their lease on its 3,943 sqm of office and warehouse space until June 2014.
- LSG Culinary Service (Lufthansa) has taken a new lease over some 4,975 sqm of office and warehouse accommodation until March 2021.
- 3,750 sqm of office and warehouse space has been let to LS Logistik until December 2020.

As previously announced, we remain in negotiations with IBM to restructure their lease which expires in February 2015 and is subject to a break option, on payment of a one-year rent penalty, in February 2012. The new lease will be on a substantially reduced area which will enable the Group to undertake a refurbishment and re-letting programme in order to diversify the income received from the asset. As yet, no amended lease has been entered into.

We are also in discussions with tenants at Düren, Kaiserslautern and St Etienne to extend leases in order to enhance the value of these assets.

Matrix Property Fund Management (Guernsey) Limited

Manager

25 August 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that to the best of their knowledge:

- The condensed set of Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union;

- The half-yearly management report includes a fair review of the information required by DTR 4.2.7 being an indication of important events that have occurred during the first 6 months of the year; and

- The half yearly management report includes a fair review of the information required by DTR 4.2.8 being disclosure of related party transactions and changes therein since the last annual report.

The Directors of Matrix European Real Estate Investment Trust Limited are listed in the Annual Report and Financial Statements for the year ended 31 December 2010. A list of current Directors is also maintained on the MEREIT website: www.mereit.info.

By order of the Board

Crispian Collins	**Stephen Coe**	**Jan van der Vlist**
Chairman	**Director**	**Director**
25 August 2011	**25 August 2011**	**25 August 2011**

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Notes	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Non-current assets				
Property portfolio	16	331,677	313,889	326,662
Goodwill	17	2,065	2,113	2,347
Total non-current assets		333,742	316,002	329,009
Current assets				
Trade and other receivables	18	13,027	13,945	13,427
Cash and cash equivalents		18,398	16,194	16,879
Total current assets		31,425	30,139	30,306
Total assets		365,167	346,141	359,315
Current liabilities				
Trade and other payables	20	7,176	9,154	6,357
Interest-rate derivative contracts	19	1,912	3,480	3,247
Exchange-rate derivative contracts	19	3,405	1,674	2,405
Total current liabilities		12,493	14,308	12,009
Non-current liabilities				
Bank loans	21	213,727	191,467	202,754
Exchange-rate derivative contracts	19	32,250	27,269	34,587
Interest-rate derivative contracts	19	1,562	5,123	3,277
Deferred tax		4,912	5,144	6,206
Total non-current liabilities		252,451	229,003	246,824
Total liabilities		264,944	243,311	258,833
Net assets		100,223	102,830	100,482
Equity attributable to owners of the parent				
Special reserve		222,703	225,939	224,501
Translation reserve		36,010	26,183	31,540
Revenue reserve		(158,774)	(149,573)	(155,841)
Total equity attributable to owners of the parent		99,939	102,549	100,200
Non-controlling interests		284	281	282
Total equity		100,223	102,830	100,482
Net asset value per share (basic) (pence)	15	278	285	279

The consolidated condensed Financial Statements have been authorised for issue and approved by the Board on 25 August 2011 and were signed on its behalf by:

Stephen Coe
Director

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	**6 months to 30 June 2011 £'000**	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
Revenue				
Rental income		17,194	23,853	40,493
Property operating expenditure		(3,120)	(5,488)	(8,951)
Net rental income		14,074	18,365	31,542
Loss on disposal of property		-	(870)	(682)
Exchange gains realised on disposal of property	8	-	21,861	21,861
Total profit on disposal of property		-	20,991	21,179
Other income	9	2,650	-	-
Total income		16,724	39,356	52,721
Other administrative expenses	10	(3,086)	(2,842)	(4,928)
Impairment of goodwill	17	(379)	(531)	(402)
Exchange rate differences		(1,482)	(997)	(2,247)
Total administrative expenses		(4,947)	(4,370)	(7,577)
Net deficit on revaluation of investment properties	16	(11,370)	(13,076)	(16,658)
Operating profit		407	21,910	28,486
Finance income	11	9	86	91
Finance expense	11	(6,975)	(10,135)	(16,253)
Movement in fair value of interest rate swap contracts	11	3,233	(1,628)	914
Movement in fair value of exchange rate derivative contracts	11	(1,059)	13,100	6,430
(Loss) / profit before tax		(4,385)	23,333	19,668
Tax	12	1,454	1,983	(619)
(LOSS) / PROFIT FOR THE PERIOD/YEAR		(2,931)	25,316	19,049
Other comprehensive income:				
Exchange differences on translation of foreign operations		4,470	(8,864)	(3,507)
Other comprehensive income for the period, net of tax		4,470	(8,864)	(3,507)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR		1,539	16,452	15,542
(Loss) / profit attributable to:				
Owners of the parent	14	(2,933)	25,301	19,033
Non-controlling interests		2	15	16
		(2,931)	25,316	19,049
Total comprehensive income attributable to:				
Owners of the parent		1,537	16,437	15,526
Non-controlling interests		2	15	16
		1,539	16,452	15,542
(Loss) / profit per share (basic and diluted) pence	14	(8.2)	67.5	51.8

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2011

Group	Attributable to owners of the company						
	Share capital	Special reserve	Translation reserve	Revenue reserve	**Sub Total**	Non-controlling interests	**Total Equity**
	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
At 31 December 2009	-	228,224	56,908	(174,874)	**110,258**	266	**110,524**
Buyback and cancellation of shares	-	(2,285)	-	-	**(2,285)**	-	**(2,285)**
Exchange gains realised on disposal of property	-	-	(21,861)	-	**(21,861)**	-	**(21,861)**
Profit for the period				25,301	**25,301**	-	**25,301**
Other comprehensive loss	-	-	(8,864)		**(8,864)**	15	**(8,849)**
At 30 June 2010	**-**	225,939	26,183	(149,573)	**102,549**	281	**102,830**
Loss for the period	-	-	-	(6,268)	**(6,268)**	-	**(6,268)**
Other comprehensive income		-	5,357	-	**5,357**	1	**5,358**
Dividends	-	(1,438)	-	-	**(1,438)**	-	**(1,438)**
At 31 December 2010	-	224,501	31,540	(155,841)	**100,200**	282	**100,482**
Loss for the period	-	-	-	(2,933)	**(2,933)**	2	**(2,931)**
Other comprehensive Income	-	-	4,470	-	**4,470**	-	**4,470**
Dividends	-	(1,798)	-	-	**(1,798)**	-	**(1,798)**
At 30 June 2011	**-**	**222,703**	**36,010**	**(158,774)**	99,939	**284**	100,223

A description of the nature and purpose of each reserve is included within note 22.

MATRIX EUROPEAN REAL ESTATE INVESTMENT TRUST LIMITED

UNAUDITED CONSOLIDATED CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	**6 months to 30 June 2011 £'000**	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
Net cash inflow from operating activities	23	15,420	1,328	11,085
Cash flows from investing activities				
Payments to enhance properties		(1,122)	-	-
Cash proceeds from sale of properties		-	175,942	173,660
Net cash (outflow) / inflow from investing activities		(1,122)	175,942	173,660
Cash flows from financing activities				
Bank loans repaid		-	(174,344)	(171,907)
Bank interest received		9	86	91
Buyback of shares		-	(2,285)	(2,285)
Finance costs paid		(6,137)	(11,615)	(18,805)
Dividends paid		(1,798)	-	(1,438)
Repayment of foreign exchange derivative contract		(4,051)	-	-
Net cash outflow from financing activities		(11,977)	(188,158)	(194,344)
Net increase (decrease) in cash and cash equivalents		2,321	(10,888)	(9,599)
Opening cash and cash equivalents		16,879	18,315	18,315
Opening cash and cash equivalents directly associated with properties held for sale		-	11,439	11,439
Effects of exchange rate changes on cash and cash equivalents		(802)	(2,672)	(3,276)
Closing cash and cash equivalents		18,398	16,194	16,879

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Matrix European Real Estate Investment Trust Limited (''MEREIT'') is a company incorporated and registered in Guernsey. The consolidated condensed Financial Statements of the Company for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

These consolidated condensed Financial Statements were approved for issue on 25 August 2011.

These consolidated condensed financial results are unaudited and do not comprise statutory accounts within the meaning of section 245 of the Companies (Guernsey) Law, 2008. Statutory audited accounts for the year ended 31 December 2010 were approved by the Board of Directors on 4 March 2011. The report of the auditors on those accounts was unqualified and the audit report did not contain any statement of matters that needed to be brought to the attention of the members.

2. Basis of preparation

The consolidated condensed financial information for the six months ended 30 June 2011 for the Group has been prepared in accordance with the Listing Rules of the Financial Services Authority and IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The interim report should be read in conjunction with the annual Financial Statements for the year ended 31 December 2010, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Going Concern

The Directors have presented the Financial Statements on the basis that the Group will continue as a going concern.

4. Significant accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual Financial Statements for the year ended 31 December 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) *Standards, interpretations and amendments to published standards effective in 2011, but which are not relevant to the group*

The following standards, amendments and interpretations to published statements are mandatory for accounting periods beginning on or after 1 January 2011 but are currently not relevant to the Group's operations:

- Amendments to IAS 32 Classification of Rights Issues (effective for accounting period beginning on or after 1 February 2010).
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for periods beginning on or after 1 April 2010).
- Amendments to IFRIC 14 & IAS 19 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning on or after 1 January 2011).

(b) Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2012 or later periods and which the Group has decided not to adopt early. These are:

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2013 –still to be endorsed).
- IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after 1 January 2013).
- IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2013).
- IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2013).
- IFRS 13 Fair Value Measurement (effective for periods beginning on or after 1 January 2013).

5. Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate risk, currency risk, credit risk, liquidity risk and capital risk management. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Group to fair value interest rate risk. It is the Group's policy to hedge interest rate risk through the use of interest rate swaps. Such interest rate swaps have had the economic effect of converting borrowings from floating rates to fixed rates.

The Group has raised long-term borrowings at floating rates and substantially swapped them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. As at 30 June 2011, the Group's borrowings were 96% hedged (December 2010: 96% hedged; June 2010: fully hedged).

The interest rate swap liability reflects the fact that market interest rates are at a level lower than the amount of the fixed rate interest terms. Should the Euribor increase by 1% the interest rate swap liability would decrease to £1.0m (December 2010: £0.90m; June 2010: £2.36m). Conversely should the Euribor fall by 1% the Group's interest rate swap liability would increase to £8.2m (December 2010: £11.8m; June 2010: £14.7m) from a closing value at reporting date of £3.5m (December 2010: £6.5m; June 2010: £8.6m).

(b) Currency risk

Whilst the Group's investments will typically be made in currencies other than sterling and generate non-sterling revenue, any dividends will be payable to Shareholders in sterling and the Net Asset Value will be stated in sterling. As a consequence, the Group will be exposed to currency fluctuations between the Group's presentation currency and other currencies (in particular, the euro). Movements in the exchange rate between sterling and any currencies in which the Group transacts may have an unfavourable effect on the Group's returns. These movements in the exchange rate may be influenced by factors such as trade imbalances, levels of short term interest rates, differences in relative values of similar assets in different currencies, long term opportunities for investment and capital appreciation and political developments.

The Group intends to hedge its foreign exchange rate exposure at levels which the Directors consider appropriate from time to time. As at the reporting date the Group has in place an income hedge (as detailed in note 19) and a capital hedge of approximately 85% (December 2010: 94%; June 2010: 92%) of its Net Asset Value against euro/sterling fluctuations.

There is no guarantee that the proportion of dividend and Net Asset Value exposure which will be hedged will remain at these levels or that it will be possible to secure hedges in the future on acceptable commercial terms. In addition, the unhedged amount of dividend and Net Asset Value will remain exposed to currency fluctuations.

The intention of the Group's foreign exchange hedging strategy is to protect it from unfavourable movements in exchange rates and to provide a more stable dividend and capital value profile. However changes in the fair value of the Group's currency hedges may introduce volatility or negatively impact the Financial Statements of the Group.

At 30 June 2011, if the euro had strengthened by 5% against sterling with all other variables held constant, the post-tax loss for the period would have increased by £0.1m (December 2010: post-tax profit increased by £0.9m; June 2010: post-tax profit increased by £0.2m) as a result of foreign exchange losses on translation of the euro-denominated entities.

The table below demonstrates the sensitivity of the foreign exchange swap to currency fluctuations. The table represents the euro to sterling conversion.

Exchange €:£	0.96	1.01	1.06	Period end closing rate 1.107	1.16	1.21
	£'000	£'000	£'000	£'000	£'000	£'000
Periodic	18,499	15,415	12,628	9,804	7,762	5,634
Final	43,093	36,775	31,054	25,851	21,096	17,561
Exchange rate derivative liability	61,592	52,190	43,682	35,655	28,858	23,195

* Periodic - refers to value of the €5m quarterly foreign exchange swap

** Final - refers to the value of the €127m foreign exchange swap due in 2014

(c) Credit risk

The Group is exposed to credit risk from cash and cash equivalents, derivative financial instruments held with LBG for foreign exchange ("FX") and interest rate swaps, deposits with banks and financial institutions, as well as credit exposure to tenants.

The credit risk on cash and cash equivalents is limited due to the high proportion of funds being held with high rated banking institutions. The table below shows the balance of cash and cash equivalents held with various financial institutions at the end of the reporting period.

Bank	Ratings at 30 June 2011	Balance at 30 June 2011 £'000	Ratings at 30 June 2010	Balance at 30 June 2010 £'000	Ratings at 31 December 2010	Balance at 31 December 2010 £'000
Barclays Bank	AA-	10,749	AA-	8,204	AA-	14,640
Investec Private Bank	BBB	-	BBB	4,105	BBB	-
Dexia	A+	7,134	A+	3,431	A+	2,143
Fortis	A+	515	A+	311	A+	68
Societe Generale Bank & Trust	A+	-	A+	116	A+	-
Erste Bank	A	-	A	27	A	28
		18,398		16,194		16,879

NB: These ratings are obtained from Fitch Ratings

The Group is exposed to loss of rental income and increase in costs, such as legal fees, if tenants fail to meet their payment obligations under their leases. The Group seeks to mitigate default risk by assessing the credit worthiness of potential and current tenants based on ratings assigned by independent credit rating agencies such as Dun & Bradstreet, and by diversifying its tenant base to include multinational corporations and local enterprises in different sectors and Continental European markets.

The Group may also require deposits or guarantees from banks or parent companies where there is a perceived credit risk or in accordance with prevailing market practice. The Manager reviews reports prepared by an independent credit rating agent, or other sources, to assess the credit quality of the Group's tenants and aims to ensure there is no excessive concentration of risk and that the impact of any default by a tenant is minimised.

However, there is no guarantee that credit risk management procedures will be able to limit potential loss of revenues and income from tenants who default on their lease obligations. If any or all of the Group's tenants are unable to pay against their receivable accounts, the Group's revenues and profitability will be adversely affected.

The table below details the Group's ten largest tenants representing greater than 77% of total contracted rent at the reporting date. All of the Group's major tenants have met their rental requirements within the terms of arrangement.

Tenant	Location	30 June 11 annual rent £'000	Proportion of annual contracted rent %	30 June 11 debtor balance £'000
1. Casino	St Etienne	6,034	20%	-
2. IBM	Nice	3,305	11%	-
3. Panrico	Spain	3,194	11%	-
4. NH Hoteles	Düsseldorf	2,536	8%	185
5. Schenker Deutschland AG	Frankfurt	2,486	8%	80
6. Jacobs Nederland B.V.	Leiden	1,852	6%	-
7. La Poste	Lyon	1,722	6%	-
8. Peek & Cloppenburg	Kaiserslautern	764	3%	-
9. Hennes & Mauritz	Kaiserslautern	714	2%	-
10. Real SB-Warenhaus GmbH	Celle	705	2%	-

(d) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial commitments.

There is additional risk that during 2011 with the possibility of further falls in property values through Europe that the Group could breach the LTV covenants with its banks. The table shows the quantum of cash needed to pay down existing debt to ensure no breaches of LTV covenants if the asset values within the portfolio continue to fall.

Portfolio valuation fall from 30 June 2011	0%	5%	10%	15%	20%	25%
	£'000	£'000	£'000	£'000	£'000	£'000
Required amount of LBG debt to be repaid due to breach of covenants on fall of LTV	-	-	-	5,247	17,685	30,123

The FX financial covenant requires the Net Asset Value (as defined under the FX contract) of the Group to remain above €75.0m and to be at least twice the value of the foreign exchange swaps.

The tables below analyses the Group's financial liabilities, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The Board has assumed the financial covenants will not be breached.

At 30 June 2011	**Less than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Borrowings	-	-	213,727	-
Derivative financial instruments*	5,317	4,612	29,200	-
Trade and other payables	7,176	-	-	-

At 30 June 2010	**Less than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Borrowings	-	-	191,467	-
Derivative financial instruments	5,154	1,711	30,681	-
Trade and other payables	9,154	-	-	-

At 31 December 2010	**Less than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Borrowings	-	-	202,754	-
Derivative financial instruments	5,652	4,773	33,091	-
Trade and other payables	6,357	-	-	-

*The Group had an aggregate mark-to-market liability in respect of FX hedging contracts of £35.7m. (December 2010: £37.0m; June 2010: £28.9m).This becomes payable should any of the FX covenants detailed in the Manager's report be breached.

The table below shows the credit balance of the counterparty in relation to the Group's bank borrowings at the end of the reporting period.

	Fitch Ratings at 30/06/11	**30 June 2011 £'000**	30 June 2010 £'000	31 December 2010 £'000
Lloyds Banking Group	AA-	213,727	191,467	202,754

(e) Capital risk management

In prior periods the Group's underlying objective was to provide Shareholders with an attractive level of income return, together with the potential for income and capital growth, through investment in European Property.

At an EGM held on 5 August 2011, shareholders approved a change in investment policy to enable the Group to effect an orderly disposal programme and return surplus capital to shareholders.

Consistent with industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total capital. Net debt is calculated as loan and other borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Consolidated Statement of Financial Position plus net debt.

The gearing ratios at 30 June 2011 and 30 June and 31 December 2010 were as follows:

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Loans and other borrowings	213,727	191,467	202,754
Less: cash and cash equivalents	(18,398)	(16,194)	(16,879)
Net debt	195,329	175,273	185,875
Total equity	100,223	102,830	100,482
Total capital	295,552	278,103	286,357
Gearing ratio (%)	66.1%	63.0%	64.9%

The Gearing ratio differs from the LTV ratio quoted in the Chairman's Statement and Manager's Report as the LTV ratio is just the outstanding third party bank debt divided by the Group's Property Value.

6. Segmental reporting

IFRS 8, Operating Segments, requires operating segments to be identified on the basis of internal financial reports about components of the group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Board of Directors) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Board of Directors contain financial information at a Group level and there are no reconciling items between the results contained in these reports and the amounts reported in the Financial Statements. Additionally, information is provided to the Board of Directors showing gross rental income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's investment property portfolio is comprised of properties in Germany, France and other European countries. As properties within each of these territories demonstrate similar long-term financial performance and economic characteristics, the Board of Directors consider it appropriate to aggregate individual properties into one of these operating segments.

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Investment property book value			
Germany	176,935	166,155	169,368
France	96,069	96,611	100,262
Other	58,673	51,123	57,032
	331,677	313,889	326,662
Gross property income			
Germany	8,615	9,064	17,513
France	5,856	5,611	11,218
Other	2,723	9,178	11,762
	17,194	23,853	40,493

Disclosure regarding the Group's major customers is given in the Manager's Report.

7. Employee costs

The Group has no employees (December 2010 and June 2010: nil)

8. Exchange gains realised on disposal of property

The exchange gains realised on disposal of property of £21.9 million in the prior period arose from the realisation of cumulative exchange differences having previously arisen on consolidation.

9. Other income

Other income of £2.7 million related to a settlement with a former shareholder, the terms of which are confidential.

10. Administrative expenses

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
Management fee	921	1,230	2,113
Legal and consultancy	1,128	675	1,251
Accountancy and administration	541	407	950
Audit fees	60	71	121
Other	436	459	493
	3,086	2,842	4,928

Other administrative expenses include directors' fees, office rental, valuation, registrar and regulatory fees and sundry costs.

11. Net finance costs

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
Finance income:			
Short-term deposits	(9)	(86)	(91)
Finance expense:			
Bank borrowings	5,780	8,786	13,901
Financing costs	-	153	(7)
Loan fee amortisation	804	805	1,588
Bank loan deferred arrangement fee	391	391	771
	6,975	10,135	16,253
Movement in fair value of derivative contracts:			
Interest-rate swaps	(3,233)	1,628	(914)
Exchange-rate derivative contracts	1,059	(13,100)	(6,430)
	(2,174)	(11,472)	(7,344)
Net finance costs	4,792	(1,423)	8,818

12. Income tax expense

Tax is charged at 32.27% for the six months ended 30 June 2011 (31 December 2010 32.54% and 30 June 2010 32.98%) representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period.

NOTES TO THE FINANCIAL STATEMENTS

13. Dividends

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
August 2010 - 4 pence per share	-	-	1,438
February 2011 - 5 pence per share	1,798	-	-

On 7 July 2011, the Board declared a dividend of 5 pence per share in respect of the half-year ended 30 June 2011. This dividend is payable on 25 August 2011 and has not been included as a liability within these Financial Statements, in accordance with IAS 10 'Events after the balance sheet date'.

14. (Loss) / profit per share

	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
(Loss) / profit per share – Basic and diluted (pence)	(8.2)	67.5	51.8
(Loss) / profit for the period attributable to owners of the parent (£'000)	(2,933)	25,301	19,033
Weighted average number of shares in issue	35,953,833	37,481,812	36,711,543

As the Group has no share option schemes, the same basic and diluted (loss)/ profit per share is reported.

15. Net assets per share

	6 months to 30 June 2011	6 months to 30 June 2010	12 months to 31 December 2010
Net assets per share (pence)	278	285	279
Net assets attributable to owners of the parent(£'000)	99,939	102,549	100,200
Number of shares in issue	35,953,833	35,953,833	35,953,833

16. Property portfolio

	Non current assets	Current assets	
	Investment properties	Properties held for sale	Property portfolio total
	£'000	£'000	£'000
Book value at 31 December 2009	354,423	179,214	533,637
Property disposal	-	(179,214)	(179,214)
Movements on revaluation of properties			
- recognised in the statement of comprehensive income	(13,076)	-	(13,076)
Exchange differences on translation of foreign currencies	(27,458)	-	(27,458)
Book value at 30 June 2010	313,889	-	313,889
Movements on revaluation of properties			
- recognised in the statement of comprehensive income	(3,582)	-	(3,582)
Exchange differences on translation of foreign currencies	16,355	-	16,355
Book value at 31 December 2010	326,662	-	326,662
Capital expenditure	1,122	-	1,122
Movements on revaluation of properties			
- recognised in the statement of comprehensive income	(11,370)	-	(11,370)
Exchange differences on translation of foreign currencies	15,263	-	15,263
Book value at 30 June 2011	331,677	-	331,677

Property portfolio analysis

	Leasehold	**Freehold**	**Total**
	£'000	**£'000**	**£'000**
At 30 June 2011	24,385	307,292	331,677
At 31 December 2010	23,268	303,394	326,662
At 30 June 2010	22,102	291,787	313,889

The fair value of the Group's investment properties at 30 June 2011 has been arrived at on the basis of valuations carried out by CB Richard Ellis ("CBRE"), external valuers. The valuation basis has been by "market value" in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Standards. The historic cost of the property portfolio translated at reporting date exchange rate is £458.3m (December 2010: £437.4m; June 2010: £415.1m).

NOTES TO THE FINANCIAL STATEMENTS

17. Goodwill

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
At the beginning of the period	2,347	7,595	7,595
Impairment	(379)	(531)	(402)
Elimination on disposal of property	-	(4,648)	(4,648)
Exchange differences on translation of foreign currencies	97	(303)	(198)
At the period end	2,065	2,113	2,347
Goodwill is attributable to the following cash generating unit			
Duren	2,065	2,113	2,347

The goodwill capitalised on the acquisition of Stadt Center Düren Verwaltungs GmbH is reviewed every six months for impairment, or more frequently if there is an indication that impairment may have occurred.

18. Trade and other receivables

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Rent receivable	4,343	4,008	2,478
Tenant lease incentives	3,529	1,746	2,528
Monies held by property managers	1,349	1,285	1,797
VAT recoverable	502	981	765
Amounts held in escrow	198	5,321	5,602
Other	3,106	604	257
	13,027	13,945	13,427

The Group's trade and other receivables are denominated in euros.

There is no significant difference between the fair value and carrying value of liabilities at the Statement of Financial Position date.

Other receivables include £2.7m due from a former shareholder as detailed in note 9.

19. Derivative financial instruments

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Interest-rate derivative contracts			
- Current liabilities	(1,912)	(3,480)	(3,247)
- Non-current liabilities	(1,562)	(5,123)	(3,277)
Exchange-rate derivative contracts			
- Current liabilities	(3,405)	(1,674)	(2,405)
- Non-current liabilities	(32,250)	(27,269)	(34,587)
	(39,129)	(37,546)	(43,516)

The Group uses interest-rate swaps to mitigate the effects of movements in interest rates on the results of the Group. The Group has a number of interest-rate swaps that exchange variable rates to fixed rates with an expiration date of January 2014.

The Group uses foreign exchange rate derivative contracts to mitigate the effect of movements in exchange rates on the results of the Group. The Group has a single exchange rate derivative contract which consists of two elements. The first element is a cash-flow hedge whereby €5.0 million are exchanged for £3.7 million on a quarterly basis until June 2014. The second element is a fair-value hedge for €127.0 million, to be exchanged for £85.8 million (June 2010 and December 2010: €150 million to be exchanged for £101.3 million). This element of the hedge becomes due June 2014. In the event of a default on the covenants attaching to the swap the Group could be required to settle the swap contract which at reporting date is a liability of £35.7 million. The covenants in relation to the exchange rate derivative are detailed in note 5(d).

The Group does not apply hedge accounting.

20. Trade and other payables

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Trade payables	802	453	353
Amounts due to related parties	476	452	486
Accruals	369	706	443
Interest payable	36	2,540	389
Rent received in advance	3,014	2,760	2,864
VAT payable	725	547	765
Income tax	983	667	861
Other payables	771	1,029	196
	7,176	9,154	6,357

The Group's trade and other payables are denominated in euros.

There is no significant difference between the fair value and carrying value of liabilities at the Statement of Financial Position date.

21. Borrowings

Movement in the Group's borrowings is analysed as follows:	**30 June 2011 £'000**	30 June 2010 £'000	31 December 2010 £'000
At the beginning of the period	202,754	386,108	386,108
Finance costs on refinancing	-	(908)	(895)
Repayment of borrowings	-	(174,344)	(171,907)
Amortisation of finance costs	804	805	1,588
Bank loan deferred arrangement fee	391	391	771
Exchange differences on translation of foreign currencies	9,778	(20,585)	(12,911)
At the period end	213,727	191,467	202,754

There is no significant difference between the fair value and the book value of the Group's borrowings. All of the Group's borrowings are in Euros.

The maturity profile of the Group's borrowings is as follows:

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
In the third year	213,727	-	-
In the fourth year	-	191,467	202,754
	213,727	191,467	202,754

NOTES TO THE FINANCIAL STATEMENTS

22. Share capital and reserves

The management shares rank pari passu with the participating shares in the event of liquidation but only for the return of the nominal paid up capital, but carry no voting rights unless there are no participating shares in issue, and carry no rights to dividends.

	30 June 2011		30 June 2010		31 December 2010	
	No.	**£**	No.	£	No.	£
Authorised share capital						
Management shares of £1	100	100	100	100	100	100
Participating shares with no par value	unlimited	-	unlimited	-	unlimited	-
Issued and fully paid						
Management shares						
Opening and closing balance	2	2	2	2	2	2

	30 June 2011	30 June 2010	31 December 2010
	No.	No.	No.
Issued and fully paid Participating shares			
At the beginning of the period	35,953,833	37,738,118	37,738,118
Purchase of own shares	-	(1,784,285)	(1,784,285)
At the period end	35,953,833	35,953,833	35,953,833

On 4 June 2010 the Group acquired 1,784,285 of the Company's own shares which reduced the issued number of shares to 35,953,833. The shares were acquired at £1.22 per share with the total cost of the transaction being £2.3m.

The following describes the nature and purpose of each reserve within equity:

Special reserve

On 15 December 2006 the Royal Court of Guernsey confirmed the reduction of share capital by cancellation of its share premium at that time and creation of a separate special reserve, which is an additional distributable reserve to be used for all purposes permitted under Guernsey Company law, including the buy-back of shares and the payment of dividends.

Translation reserve

The amount of any gains and losses arising on the translation of net assets of foreign operations in to Sterling.

Revenue reserve

The cumulative amount of any profits or losses.

Non-controlling interests

The share of net assets attributable to non-controlling interests in subsidiary undertakings.

23. Cash flow from operating activities

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
(Loss) / profit for the period / year	(2,931)	25,316	19,049
Income tax (credit) / charge	(1,454)	(1,983)	619
(Loss) / profit before tax	(4,385)	23,333	19,668
Movement in the fair value of interest rate derivative contracts	(3,233)	1,628	(914)
Movement in the fair value of foreign exchange derivative contracts	1,059	(13,100)	(6,430)
Finance expense	6,975	10,135	16,253
Finance income	(9)	(86)	(91)
Operating profit	407	21,910	28,486
Profit on disposal of property	-	(20,991)	(21,179)
Exchange rate differences	1,482	997	2,247
Adjustments for:			
Impairment of goodwill	379	531	402
Depreciation	-	11	11
Net deficit on revaluation of property portfolio	11,370	13,076	16,658
Tenant incentives and rental guarantees	(846)	-	(1,371)
Changes in working capital:			
Decrease / (increase) in trade and other receivables	1,850	(4,927)	(2,240)
Increase / (decrease) in trade and other payables	774	(9,352)	(10,370)
	15,416	1,255	12,644
Tax received /(paid)	4	73	(1,559)
Net cash inflow from operating activities	15,420	1,328	11,085

24. Related party transactions

The Group is managed by Matrix Property Fund Management (Guernsey) Limited (the "Manager"), an investment management company incorporated in Guernsey. Under the terms of a Management and Investment Advisory Agreement, the Manager is responsible for advising the Group on the overall management of the Group's investments and for managing those investments in accordance with the Group's investment objective and policy, subject to the overall supervision of the Directors.

The Manager is entitled to a base fee, acquisition fee and a performance fee together with all reasonable expenses incurred in the performance of its duties. The base fee, which is paid and calculated quarterly, is equal to 0.6% of the Group's Net Asset Value plus any borrowings of the Group.

The Manager will also be entitled to receive an acquisition fee, should the company or a relevant subsidiary purchase a property. The fee payable will be equal to 1% of the purchase price of the property.

The Manager is also entitled to receive an annual performance fee, where Total Shareholder Return exceeds an annual rate of 10% (the "hurdle"). Where the hurdle is met, a performance fee will be payable in an amount equal to 20% of any aggregate Total Shareholder Return over and above the Hurdle. If a performance fee is paid in respect of a performance period, the Hurdle in subsequent periods shall be calculated using the highest market price and capitalisation at the end of the performance period which generated the last performance fee.

The Management and Investment Advisory Agreement has been terminated by the Company serving 36 month's written notice on the Manager. The Board gave notice to the Manager in January 2011, and the current contract is therefore due to expire in January 2014.

The figures below show the related party transactions at the reporting date.

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
Statement of comprehensive income			
Insurance commissions	-	85	103
Management fee	(921)	(1,230)	(2,113)
Accountancy fees	-	-	44
Expense reimbursements	(17)	(17)	(74)
	(938)	(1,162)	(2,040)

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Statement of financial position			
Management fee	467	444	456
Other	9	8	30
	476	452	486

NOTES TO THE FINANCIAL STATEMENTS

During the period the directors received the following dividends.

	6 months to 30 June 2011 £'000	6 months to 30 June 2010 £'000	12 months to 31 December 2010 £'000
C Collins	1	-	1
S Coe	-	-	-
J van der Vlist	1	-	1
	2	-	2

INDEPENDENT REVIEW REPORT

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the half yearly report for the six months ended 30 June 2011 which comprises the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated cash flow and related notes 1 to 24. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the condensed set of financial statements included in this half-yearly report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half yearly report based on our review. This report, including the conclusion, has been prepared for, and only for, the Group for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 United Kingdom. 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 report for the six months to 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey
25 August 2011

COMPANY INFORMATION

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Stephen Coe
Jan van der Vlist

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INFORMATION FOR SHAREHOLDERS

Financial calendar

Second Interim Management statement	November 2011
Annual Report and Financial Statements	March 2012
Annual General Meeting	April 2012
First Interim Management statement	May 2012

Share price

Share price at 30 June 2011	169p
High during the 6 months ended 30 June 2011 (6 June 2011)	188p
Low during the 6 months ended 30 June 2011 (4 January 2011)	84p

Other (€:£)

Average exchange rate for the period	1.1520
Closing exchange rate for the period	1.1072

Investor relations and general enquiries

For all investor relations and general enquiries about MEREIT, including requests for further copies of the Report and Accounts, please contact:

Praxis Fund Services Limited
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Or visit our investor relations website www.mereit.info for full up-to-date investor relations information including the latest share price, recent annual and interim reports, results presentations and financial news.

Communications with shareholders are mailed to the addresses held on the share register. For all shareholder administration enquires, including changes of address, please contact:

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