The X-Leisure Unit Trust

Quarterly update - 31 December 2008

Overview

As the global financial crisis spreads, the UK has seen large scale bank failures and massive government intervention. As the majority of major economies slowdown, recession is forecast for 2009 and most major asset classes have suffered valuation falls during 2008. With the financial markets remaining constrained, this is putting substantial downward pressure on property values.

The X-Leisure Unit Trust (X-Leisure or the Fund) provided a negative return of -29.7% for the three months to 31 December 2008 and -49.7% for the twelve months. The poor performance is due to an outward yield movement of over 200bp during 2008 coupled with the negative effect of gearing. During Q4 the Fund's value fell by 12.5%. All property sectors have been affected by substantial valuation decreases during 2008.

	Q4 2008	2008	3 years
The X-Leisure Unit Trust	-29.7%	-49.7%	-13.8%
IPD All pooled fund index	-18.7%	-32.0%	-8.5%

Note:Total returns net of all fees. Source: IPD UK PPFI December 2008

Stabilisation plan

The unprecedented adverse market conditions have put severe pressure on the Fund's syndicated loan to value ratio, which at 31 December 2008 was 69.65% against a covenant of 70%. The Fund is taking action to stabilise its funding position, including actively negotiating with its banking syndicate and taking steps to raise additional equity. The Fund is targeting to put in place a long term funding solution during the first quarter of 2009, and there will be further communications to investors on this matter. As part of the stabilisation plan, proposals regarding accountability and alignment of the managers and exit options for investors will be proposed.

Transactions

O2 Centre The property was formally placed on the market at the end of October 2008 and generated strong investor interest. Terms have now been agreed with a prospective purchaser, and solicitors are instructed. A target has been set for exchange of contracts in early February 2009. There are a number of reserve bidders who have made offers close to the price agreed with the chosen buyer, should the selected purchaser not perform.

Fiveways, Birmingham The property remains on the market. The prospective purchaser encountered difficulties in securing funding so withdrew from the purchase, although they remain keen to proceed and are currently seeking alternative finance.

West Central, Bournemouth The developer has now served formal notice confirming that all of the conditions set out in the development agreement have been satisfied and that the agreement is now unconditional. We are actively reviewing the agreement and all options for this development.

Asset management

Overview
The focus of asset management activity over the quarter has been enhancing income through lettings and rent reviews. Four new lettings were completed over the quarter with a combined ERV of £140,500 per annum. The void by ERV for the Fund is 3.7%. Five rent reviews were settled during Q4 at an average of 3.4% above ERV.

Ten tenants went into administration in Q4 2008, totalling £762,961pa of passing rent. Of these units, £605,566 (79%) are now under offer or in the process of being assigned to new occupiers.

Xscape Castleford
The surrender of the former Tootsies restaurant and re-letting to Pizza Express at £105,175 per annum (£25.84 per sq/ft) has set a new headline rent for the restaurants at Xscape Castleford. This combined with the new openings of Subway, Bella Italia, Trespass and SurfAnic has significantly improved the retail and restaurant offer.

Brighton Marina, Brighton
The arbitrators award on the rent review of the Pizza Express unit at Brighton Marina at £114,000 per annum was 20% above the ERV and at £34.25 per sq/ft sets the tone for the remaining restaurant reviews at Brighton.

Riverside, Norwich
Remedial works are on track to commence in Q1 2009 subject to a simultaneous execution of the building contract (RG Carter) and the tenant access agreements (Luminar and Mitchells & Butler) all of which are close to agreement. The steel has been ordered and the site set up is in place in anticipation of starting. Works are programmed to take 44 weeks from start. Amendments are being sought to all agreements to ensure minimum cash flow requirement from X-Leisure. Mediation has now been set for 4 & 10 February 2009 between the contractor, developer, employer's agent, engineer and X-Leisure.

Bentley Bridge, Wolverhampton
The former Healthlands health club unit has now reopened as a bowl, operated by AMF Bowling. Initial trading reports are extremely positive.

Planning

Brighton Marina, Brighton
The proposed residential development went before the development control committee on 12 December 2008. Despite an officer recommendation to approve, the committee refused the application. The developer is currently reviewing the detail of the refusal and considering options for an appeal as well as launching a PR campaign to encourage support for the development.

Xscape Milton Keynes
The planning application for the development of a large casino, hotel, additional retail and restaurants is due to go before the development central committee in Milton Keynes on 12 February 2009.

Leisure market

Investment
There have been no significant leisure transactions over the quarter. There is continued downward pressure on pricing, partly driven by the limited availability of funding.

Occupier
The occupier market remains strong. Most of the large leisure operators across all segments are still enjoying growth year on year, and we do not foresee any major corporate failure in the near future. Q4 ended a strong year for the cinema, with box office revenues reported to be up 5.1% across the industry, boosted by strong film product. However, cinema and bowling operators continue to report falling secondary spend with income from their ancillary revenues areas such as food, beverage and amusement operations down. This is reflected throughout the leisure industry segments, where most operators are still trading on par with like for like sales last year while also taking precautionary measures by reviewing their cost base and trying to establish attractive pricing offers.

For 2008, The Restaurant Group (Frankie & Benny's and Chiquito's) reported results showing 1.5% like-for-like growth over the preceding twelve months whilst Tragus (Café Rouge, Bella Italia and Strada) reported results 3.3% down year-on-year for the four weeks ending 4 January 2009. The majority of restaurant operators are maintaining sales by discounting, in particular two-for-one type offers. Operators in the sector are predicting 2009 to be a challenging trading environment, where they will need to focus on business operating costs as sales revenues come under pressure and they are forced to continue discounting in order to maintain sales. The main operators within our portfolio are continuing to demonstrate strong resilience both on sales and profits in this very challenging and uncertain environment.

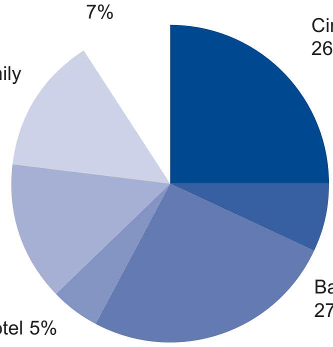
Debt

Xscape Milton Keynes was successfully refinanced jointly by Deutsche Postbank and Abbey and the current LTV is 56.7% (60% covenant). Xscape Castleford required loan assistance for Q4 2008 of £5.8m which has been placed on deposit with HBOS.

Distributions

The valuation falls during 2009 have given rise to several technical accounting issues. Impairment of Riverside Norwich and Fiveways Birmingham have resulted in the Fund taking write-offs in the profit and loss account as at 31 December 2008 and subsequently the Fund was not able to pay a distribution in Q4 2008.

Covenant by sector
at 31 December 2008



Source: Hermes Real Estate and JLL

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Key statistics
As at 31 December 2008

Fund value

Gross asset value:	£721.4m
Net asset value:	£222.5m
Number of assets:	19

Unitholder returns

Twelve month return to Unitholders:	-49.7%
Quarterly return to Unitholders:	-29.7%
Net asset value per unit:	83.0280p
Number of Unitholders:	22

Property portfolio

Portfolio net initial yield:	6.65%
Portfolio true equivalent yield:	8.06%
Portfolio reversionary yield:	7.56%
Portfolio void (based on ERV):	3.7%
Weighted unexpired lease term (net income):	16.2 years
Secure net income with fixed uplifts:	40.4%
Gearing (Fund based on gross asset value):	67.5%
Gearing (syndicated facility)	69.9%

Total expense ratio (TER)

	GAV	NAV
Management fees	0.58%	1.44%
Fund costs	0.11%	0.26%
TER	0.69%	1.71%
Property costs	0.92%	2.27%
Real estate expense ratio	1.60%	3.98%
Performance fees	-2.14%	-5.32%

INREV NAV pence per unit (December 2008)	74.458p

Source: Hermes Real Estate - December 2008.

Unit prices

Period	Unit price	Quarterly change
31 December 2007	167.7455p	-8.6%
31 March 2008	158.5511p	-5.5%
30 June 2008	145.6764p	-8.1%
30 September 2008	118.1158p	-18.9%
31 December 2008	83.0280p	-29.7%

Distribution

Distribution per unit (Quarter to December 2008):	0.0p
Distribution per unit (Year to December 2008):	2.3471p
Distribution yield (Year to December 2008):	2.8%

Top five holdings by value
As at 31 December 2008

Asset	Lot size range
O2 Centre, Finchley Road, London	Greater than £100m
Xscape, Milton Keynes	£75m - £100m
Brighton Marina, Brighton	£75m - £100m
Xscape, Castleford	£50m - £75m
Riverside, Norwich	£25m - £50m

Income expiry profile
As at 31 December 2008

Lease expiry	% net income
0-5 years	6.8%
5-10 years	5.0%
10-15 years	25.9%
15-20 years	44.3%
20+ years	18.0%

Source: Hermes Real Estate - December 2008.

About Hermes (Fund Manager)

Hermes Real Estate is the dedicated real estate subsidiary of Hermes Fund Managers Limited. Hermes is wholly owned by the largest pension scheme in the UK, the BT Pension Scheme, giving its real estate investment perspective a unique alignment with other long-term investors.

Lead by Alasdair Evans, Hermes Real Estate has been the Fund Manager since inception in 2004. As Fund Manager Hermes Real Estate oversees all aspects of the fund including: reporting, corporate governance, debt and investor relations.

About Capital & Regional (Property Manager)

Capital & Regional (C&R) are a well established property company currently listed on the London Stock Exchange. C&R's business is acquiring and asset managing properties within specific property sectors. C&R have focused on creating funds which they have co-invested in. C&R currently have investments under management within the leisure, retail, trade park and German property markets.

X-Leisure has unique expertise in the leisure market. The specialist team, lead by PY Gerbeau, combines leisure destination management, marketing and events in addition to a strong property team.

For enquiries contact:

Mourant
Robin Baird, Business Manager
Tel: 01534 609414
Email: robin.baird@mourant.com

Hermes
Alasdair Evans, Chief Operating Officer
Tel: 020 7680 2380
Email: a.evans@hermes.co.uk

Further information is available on our website:
www.x-leisureunittrust.com

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