the Local Shopping REIT plc

Annual Report

for the year ended 30 September 2015

Stock Code: LSR

Overview

What we do . . .

The Local Shopping REIT plc ("LSR") is a Real Estate Investment Trust ("REIT") invested in a portfolio principally comprising local shopping assets in urban and suburban centres throughout the UK.

Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or "top-up" shopping. As at 30 September 2015 the Company's directly owned portfolio comprised 353 properties, with over 1,076 letting units. The Company's strategy is to maximise shareholder value through (inter alia):

- disposing of its assets progressively in accordance with prevailing market conditions with a view to repaying the Company's existing debt facilities (where consistent with the protection of value) and ultimately returning value to shareholders;
- exploiting the potential of the portfolio through active asset management.

What is a REIT?

Real Estate Investment Trusts are listed property investment companies or groups not liable to corporation tax on their rental income or capital gains from their qualifying activities.

For more information see **LSR at a Glance** on pages **02** and **03**

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

Introduction to the 2015 Annual Report

Welcome to the Annual Report of the Local Shopping REIT plc for the year ended 30 September 2015.

During the year the directors and the management team continued to execute the Company's investment policy of selling down the investment property portfolio whilst effectively managing the residual properties and maintaining shareholder value. We were able to use the proceeds of property sales to repay debt and enable the restructuring of our banking facilities, considerably reducing the interest payable over their remaining lifetime to April 2018, whilst retaining an appropriate amount of cash in reserve. We are aware of the need to dispose of the remainder of the property portfolio as quickly as is proportionate with the maintaining shareholder value and we hope to make significant progress towards this during 2016.

The directors consider that, in accordance with the UK Corporate Governance Code 2014, the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. We hope you will find this report informative and helpful.

Stephen East
Chairman

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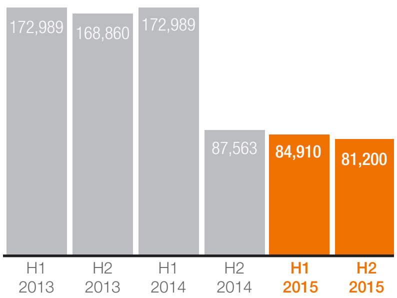
LSR at a Glance

Our portfolio was revalued at 30 September 2015 at £81.20m, reflecting an equivalent yield (excluding the residential element) of 9.30%. The portfolio comprised 353 properties, with 1,076 letting units, producing an annual gross rental income, after deducting head rent payments, of £7.49m.

Over the year as a whole, like-for-like net rental income fell by 0.54% and the portfolio Market Rent fell on a like-for-like basis by 0.40%. Like for like, the portfolio value fell by 1.50% over the period. The loan-to-value ratio at the year end was 52.9%.

Portfolio Value (£000)

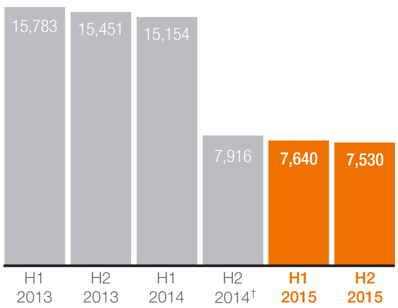
-0.25%*



* Like with like.

Portfolio Rent (£000)

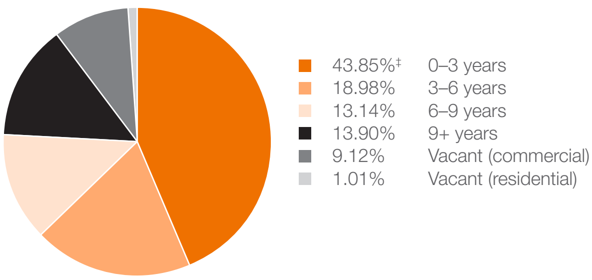
-0.01%*



† Decrease due to disposal of significant proportion of portfolio.

Lease Expiry Profile

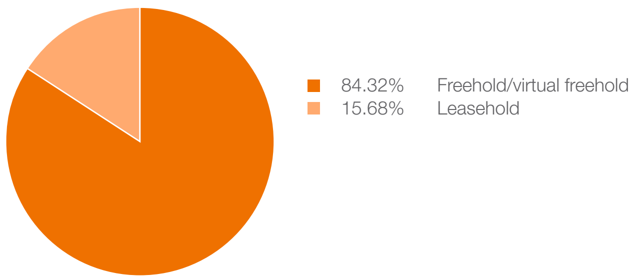
As a percentage of Market Rent



‡ Including residential AST leases.

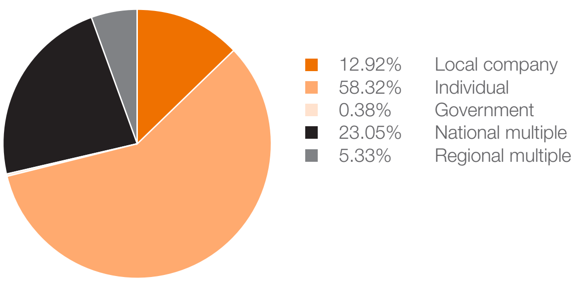
Tenure

As a percentage of valuation



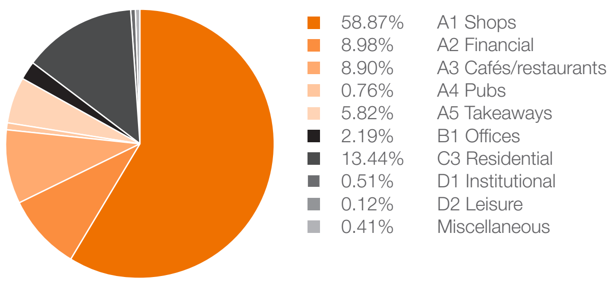
Tenant Grade

As a percentage of Market Rent



Planning Use

As a percentage of Market Rent



Portfolio construction

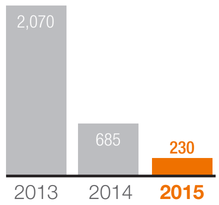
% of portfolio

		Market Rent	Value
1	Scotland	12.30%	11.53%
2	North East	4.08%	3.50%
3	Yorkshire & Humberside	8.41%	7.56%
4	East Midlands	6.78%	6.89%
5	East Anglia	2.14%	2.01%
6	London and South East	19.70%	24.92%
7	South West	12.58%	13.08%
8	Wales	4.72%	4.48%
9	West Midlands	9.51%	8.93%
10	North West	19.78%	17.10%

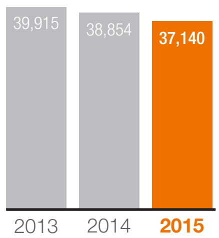
Strategic Report

Highlights

Recurring Profit
(£000)



Adjusted Net Asset Value
(£000)



- Recurring profit* for the period of £0.23m or 0.3 pence per share ("pps") (2014: £0.68m or 0.8 pps).
- Profit for the financial period of £0.02m or 0.02 pps (2014: £1.21m or 1.5 pps).
- Portfolio valued at 30 September 2015 at £81.20m, reflecting an equivalent yield (excluding the residential element) of 9.30% (30 September 2014: £87.6m, equivalent yield 9.25%).
- Net Asset Value (NAV): £34.9m or 42 pps (30 September 2014: £34.8m or 42 pps).
- Adjusted NAV: £37.1m or 45 pps, excluding liabilities arising from derivative financial instruments (30 September 2014: £38.8m, 47 pps).
- Cash holdings at 30 September 2015 of £12.74m.
- Total net debt (taking account of cash reserves) of £42.95m, reflecting an LTV of 52.89% (2014: 56.12%).
- Sales completed on 37 properties for a combined consideration of £5.33m, at a gross premium of 9.1% of the aggregate valuations at the time the properties went under offer.
- 71 vacant commercial units let at an aggregate annual rental income of £533,170 per annum.
- 33 rent reviews with an aggregate rental uplift of £54,593 (9.83%) above passing rent.
- 47 lease renewals secured at an aggregate net rental decrease of £8,666 (1.76%) to previous passing rent, but 8.42% above Market Rent.
- HSBC debt facility restructured, removing 'payment in kind' interest accrual for debt repayment of £6.9m.
- Overall debt repayment for the year of £9.12m.

* Recurring profit is explained in the Finance section below.

Investment Policy

The Company's Directors, together with its investment manager INTERNOS Global Investors Limited, continue to execute the following investment policy, adopted by shareholders in July 2013.

Objectives

The Company's investment objective is to maximise value for its shareholders from its existing portfolio of local real estate assets, comprising local shops in urban and suburban areas, as well as neighbourhood and convenience properties throughout the UK.

The Company seeks to achieve this through:

- realising its assets progressively in accordance with prevailing market conditions with a view to repaying the Company's existing debt facilities (where consistent with the protection of value) and ultimately returning value to shareholders;
- exploiting the potential of its remaining property portfolio through active asset management; and
- making further investments in properties only where such investment is deemed by the Board, in consultation with INTERNOS, to be significant to protect or enhance the realisable value of an existing property asset. In such circumstances the Company may seek to purchase assets intrinsically linked to existing assets in its core local retail portfolio (such as flats situated above local convenience stores in order to exploit marriage value).

The Company has the power under its Articles to borrow up to an amount equal to 75% of gross assets at the time of the drawdown. The Company intends to reduce its gearing ratio from its current level going forward.

Strategy

The Company seeks to implement its investment policy as follows:

- Selling its property assets as expeditiously as is consistent with the protection of value, with an initial focus on those properties already optimised for sale and those in markets where the Company has relatively few assets, so as to reduce property management costs. The Company aims to complete the disposal programme within a period of approximately three years.
- Applying the proceeds from the sales of properties to repay the Company's debt facilities. The amount the Company will have to pay in respect of termination fees (including crystallisation of any mark to market liability) under its derivative arrangements will be significantly increased or reduced depending on the prevailing interest rates at the time of the repayment of the debt. Accordingly, the Company has not set a prescriptive timetable for the sale of the properties, but has instructed and incentivised INTERNOS to dispose of properties at such a time during the next four years with the intention of aiming to minimise the total break costs payable and ultimately maximise the monies paid to the shareholders.
- Using the cash proceeds from property sales in excess of the amount required to repay allocated loan amounts and related financing costs either for further debt repayment or for return of capital to the shareholders in accordance with its assessment at that time of what will deliver the best time and risk adjusted returns to shareholders.
- Ensuring an orderly phasing of property sales, firstly to protect value and not over-supply this specialist property market at any one time, and secondly to mitigate associated friction costs, and in particular the early repayment of hedging arrangements.
- Executing sales in a form which best contributes towards shareholder value, including the sale of property holding subsidiary companies, as well as portfolio and individual asset sales.
- Avoiding the acquisition of new property assets other than where such an acquisition is deemed by the Board, in consultation with INTERNOS, to be essential to protect or enhance the realisable value of an existing property asset. A corporate transaction, such as the merger or sale of the Company, will be considered, where this offers opportunity to accelerate the realisation of optimal value for shareholders.

Significant progress has been made towards these objectives over the two accounting periods following the change in investment strategy, as shown below:

	30 September 2013	**30 September 2015**
No. of Properties	640	**353**
Void Rate	11.97%	**10.47%**
Cash	£6.63m	**£12.74m**
LTV (loan facility level)	82.1% and 88.5%	**71.7%**
LTV (corporate level, including cash held)	75.2%	**52.89%**
No. of Properties sold in Portfolio sale	235	
No. of Properties sold individually (owner occupier, private treaty, auction)	60	
Aggregate gross premium/(discount) to valuation for all sales	2.3%	

We continue to execute the investment strategy, actively pursuing all disposal opportunities including portfolio transactions, private treaty, owner-occupier sales and auctions. The improvement in the operational performance of the assets continues to assist the disposal programme.

Strategic Report

Performance Review

Business Model

Our operating model focuses on two principal, inter-related activities:

- Disposing of the Company's remaining property assets and paying down its debt facilities;
- Sound asset management to maximise returns from the residual portfolio.

Core to the achievement of good returns on our properties, and thus the maximisation of disposal values, is letting space to reliable tenants at affordable rents and the minimisation of tenancy voids and their associated costs.

Accordingly, we continue to focus on the following principal contributors to the success of our business:

- the talent and commitment of our fund manager and the asset management and financial teams engaged on the portfolio;
- our relationships with national and local advisers and agents; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

Business Review 2014–15

Market Context

Official statistics released throughout the year indicated that the UK economy continued its slow but steady emergence from the aftermath of the economic crisis of 2008, with the Office for National Statistics reporting that gross domestic product per head at 30 June 2015 had exceeded its pre-recession high. UK employment levels are also at an all-time high. However, GDP growth slowed during Q3 2015, with a fall in construction output restricting expansion during the quarter to 0.5%, down from 0.7% in Q2. Whilst services continued to perform well, manufacturing was also identified as a problem area, showing a drop in output of 0.9% during the first three quarters of 2015, as producers struggled with falling demand from overseas markets such as China and other emerging economies.

More positively for the retail sector, household disposable income has continued to rise and this appears to be feeding through into retail spending, with the Office for National Statistics reporting retail sales figures 6.5% ahead of September 2014. This was against a background of a fall in average store prices of 3.6% and an increase in on-line sales of 15.2% over the year.

Within this mixed environment, local and independent retailers continue to perform well, with the Association of Convenience Stores reporting 5% year-on-year sales growth amongst local shops. This research indicates that the most successful convenience traders are those that offer add-on services, such as mobile phone top-up, recycling services and internet shopping collection facilities. We seen this reflected amongst our own tenants, with good performance also amongst retailers offering health and beauty services and takeaway operators.

With a benign economic environment and apparent liquidity in the funding markets the succession of high profile collapses so evident in the downturn has continued to abate; albeit examples can still be found in fashion chain USC, streaming service Blinkbox and Doncaster-based baker, Cooplands.

Despite the continuing improvement in consumer fundamentals, retail has lagged the other main property investment sectors, with rental and yield performance weaker than office and industrial markets. It appears that investors are still exercising a degree of caution towards a sector which has experienced a recent structural adjustment arising from the impact of internet shopping, which has led to a significant rebasing of rents to more affordable levels. Recent well publicised concerns regarding excess space capacity amongst supermarket operators may also have tainted investor attitudes.

Recently reported auction results (for example from Allsop LLP) indicate that for Grade B retail the trend of softening of yields which took hold in from 2006 has finally abated, with yields now stable. However, this is over a year later than stabilisation for Grade A retail and the approximate 250bp spread between Grade A and Grade B retail auction transactions compares with a 15 year historical average of nearer 150bp.

Operating Results & Portfolio Performance

Comparisons of operating results and portfolio performance during the year with the previous year should take account of the sale of two of the Company's property-holding subsidiaries, NOS 2 Limited and NOS 3 Limited, in August 2014, shortly prior to the reporting period. This reduced the net rental income of the portfolio by circa 46% between the two years.

Profit before tax for the year was £0.02 million, or 0.02 pps, (2014: profit of £1.21 million, or 1.47 pps).

The recurring profit was £0.23 million, or 0.3 pps (2014: £0.68 million, or 0.8 pps). The recurring profit equated to 4.03% of net rental income (2014: 4.9%). Property operating expenses were £1.96 million, compared with £3.86 million in 2014. The principal reasons for these changes was the sale of properties in accordance with the investment policy (principally those held by NOS 2 Limited and NOS 3 Limited shortly before the beginning of the year). This had the effect of reducing rental income whilst removing the associated direct property expenses, but increasing the proportion of overheads to rental income.

Other factors included a reduction in bad debt charges, which were £0.25 million in the year (2014: £0.99 million) and non-recoverable service charges, which reduced to £35,000 compared with £287,000 in 2014. The profit before tax also incorporates a charge of £0.22 million representing an adjustment to the consideration for the disposal of NOS 2 Limited and NOS 3 Limited in relation to debtor balances.

Revaluation

The profit before tax reflected the movement in fair value of the property portfolio, which was valued at £81.2 million at 30 September 2015 (30 September 2014: £87.6m). The movement during the period reflected a combination of the reduction in portfolio value as a result of property disposals and value movements within the ongoing portfolio. On a like-for-like basis the portfolio reduced in value by 1.50%.

The investment property portfolio valuation as at 30 September 2015 reflected an equivalent yield (excluding the residential element) of 9.30% (30 September 2014, like-for-like: 9.25%).

As at 30 September 2015, the portfolio comprised 353 properties with an annual rental income, net of head rents payable, of £7.49 million (30 September 2014: 387 properties; annual rental income £7.92 million). The portfolio included 1,076 letting units (30 September 2014: 1,190 letting units).

Investment Property Portfolio as at 30 September 2015

Value	£81.20m
Initial Yield ("IY")	8.69%
Reversionary Yield ("RY")	9.68%
Equivalent Yield ("EY")	9.30%
Rent per annum*	£7.49m
Market Rent per annum*	£8.07m

* Net of head rents payable.

Value Range	No. of Properties	Value £m	Equivalent Yield
£0 – £100k	141	9.57	10.68%
£101k – £200k	102	14.28	9.43%
£201k – £500k	81	25.21	9.39%
£501k – £1m	21	16.25	9.40%
£1m – £3m	7	12.44	9.36%
£3m +	1	3.45	6.62%
Total	353	81.20	9.30%

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 £230,017 and the median is £125,000. The residential element of the portfolio has been valued at £11.53 million, typically based on 85% of vacant possession value. The average value of the residential units in our portfolio is £51,463.

Portfolio — Like-for-like comparison	30 September 2015	30 September 2014	Change
Value	£81.20m	£82.43m	–1.50%
Initial Yield	8.69%	8.87%	–18 bps
Reversionary Yield	9.68%	9.50%	+18 bps
Equivalent Yield	9.30%	9.26%	+4 bps
Rent per annum*	£7.49m	£7.53m	–0.58%
Market Rent per annum*	£8.07m	£8.10m	–0.40%

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

* Net of head rents payable.

Strategic Report

Performance Review

Regional variations for market rents and yields across the portfolio are illustrated by the table below:

Region	30 September 2015 Equivalent Yield	30 September 2014 Equivalent Yield (like-for-like)	Change bbs
East Anglia	**10.68%**	9.82%	+86
London	**6.25%**	6.46%	–21
South East	**7.97%**	8.36%	–39
South West	**9.25%**	9.24%	+1
West Midlands	**9.74%**	9.56%	+18
Wales	**10.10%**	10.01%	+9
Yorks & Humberside	**10.40%**	10.13%	+27
East Midlands	**8.92%**	8.95%	–3
North	**10.77%**	10.25%	+52
Scotland	**9.93%**	10.12%	–19
North West	**10.05%**	9.39%	+66

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

Property Sales

During the year sales were completed on a further 37 properties at a combined gross sale price of £5.33 million. This produced a premium of 9.1% on a gross proceeds basis to the aggregate valuations at the time the properties went under offer. Based on the carrying valuation at the time of sale the premium was 3.5%. The difference reflects revaluations during the sale process.

At the year end a further 21 properties were under offer at an aggregate price of £2.58 million, of which 5 properties have since been sold for a total of £649,000.

As at the date of this report, total property sales since the change in the Company's investment strategy in July 2013 have reached £90.21 million. A further 20 properties are currently under offer at an aggregate price of £3.16 million. Our target remains to complete the asset disposal and loan repayment process by the end of 2017 and return cash to shareholders as soon as possible thereafter.

Portfolio Performance and Asset Management

During the period we let 71 commercial units at a combined rent of £533,170 per annum against aggregate Market Rent of £578,990. Of these new lettings, eleven incorporated stepped rent increases whereby the aggregate initial rent will typically rise to exceed the current Market Rent over the first two years of the leases. Our average rent free period on lettings completed during the period was 94 days. At 30 September 2015 ten units were under offer for letting.

Rent reviews, which were completed on 33 units, resulted in an increase in aggregate rental income of £54,593 per annum and a premium of 11.15% to Market Rent. Existing leases were renewed on 47 units, resulting in an aggregate net rental decrease of £8,666 (1.76%), but £37,510 (8.42%) ahead of Market Rent.

The portfolio rental income (after the deduction of head rent payments) at the year end was £7.49 million, compared with a like-with-like net rental income of £7.53 million in 2014, a reduction of 0.54%. The like-for-like aggregate Market Rent declined by 0.40% over the period.

During the year consent was obtained for one change of use, for the replacement of a redundant pub unit with seven houses.

The overall void rate within the portfolio at 30 September 2015 was 10.47% of portfolio Market Rent, equivalent to Market Rent of £0.85 million (30 September 2014: 11.94% and £1.03 million). The Market Rent for void commercial properties was £0.74 million, with £0.11 million attribuable to residential units (30 September 2014: £0.91m and £0.12m).

We continue our policy of taking early possession of units for re-letting where tenants are in financial difficulties, unless there is a good prospect of working with tenants to clear the arrears. The bad debt charge reduced significantly during the period compared with the previous year.

Our policy is to seek rent deposits for new lettings or assignments wherever appropriate. As at 30 September 2015, deposits held in respect of commercial tenants equated to 23.0% of our quarterly rent roll (30 September 2014: 27.76%), providing a measure of protection against tenant default. Further deposits, typically equating to one month's rent, are held by our managing agents and the Deposit Protection Service in respect of residential tenancies.

During the year the joint venture in which the Company participated entered members' voluntary liquidation, the properties held by the joint venture having been sold towards the end of the previous year. During the year the Company received distributions totalling £0.29 million arising from its equity stake. The Company now has no joint venture interests.

Finance Review

The financial statements contained in this report have been prepared in accordance with International Reporting Standards ("IFRS"). No new accounting policies were adopted during the year.

Results

The Group has recorded an IFRS profit for the financial year of £0.02m (2014: £1.21m). The principal factors in the IFRS result were:

- the reduction of property activity levels following the disposal of NOS 2 Limited and NOS 3 Limited immediately prior to the year together with a further 37 properties during the year;
- the reduction in administrative expenses during the year, which moved from £2.2m to £1.7m; and
- the reduction in the fair value of the property portfolio by £1.6m over the year.

Key Performance Indicators

The following financial key performance indicators are monitored by the directors to review the performance of the business, in addition to the specific measures described in the Business Review which are used to monitor the performance of the property portfolio.

	30 September 2015	30 September 2014
Interest cover*	**188%**	183%
Loan to value (LTV) ratio	**52.9%**	56.1%
Adjusted NAV per share	**45p§**	47p§
Gearing (net of cash held)	**123%**	141%
Recurring profit per share†	**0.28p**	0.83p

* Based on rental income compared to interest payable.
§ Adjusted to exclude the fair value of financial derivatives.
† Based on 82,505,853 shares in issue at 30 September 2015 (2014: 82,505,853).

Recurring Profit

The recurring profit for the year was £0.23m (2014: £0.69m), the calculation of which remains consistent with previous years. A reconciliation of the profit before tax to the recurring profit is set out in the table below:

	30 September 2015 £000	30 September 2014 £000
Profit/(loss) before tax (IFRS)	**20**	1,206
Movement in the fair value of the portfolio	**1,638**	496
Movement in the fair value of the interest rate swaps held	**(1,728)**	(2,267)
Loss/(profit) on disposal of properties	**7**	(475)
Loss on sale of shares	**–**	1,312
Non-recurring expenditure & net resolution of aged balances	**65**	413
Adjustment to portfolio sale proceeds	**225**	–
Recurring profit on continuing operations	**227**	685

The calculation remains consistent with previous periods.

The recurring profit per share for the year was 0.3 pence (2014: 0.8 pence).

In accordance with the dividend distribution policy adopted by the Board in 2013, no dividend will be paid for the year (2014: nil).

Strategic Report

Finance Review

Significant factors affecting recurring profit were:

Net Asset Value ("NAV")

During the period NAV rose to £34.85 million or £0.42 per share, based on 82.5 million shares in issue, excluding those held in Treasury (30 September 2014: £34.83 million, £0.42 per share).

The adjusted NAV of the Company as at 30 September 2015, excluding liabilities arising from derivative financial instruments, was £37.14 million or £0.45 per share (30 September 2014: £38.8 million, £0.47 per share).

As at 30 September 2015 the Group held £12.74 million of cash.

The Group's revaluation policy remains unchanged. At the half year and year end, 25% of the portfolio, plus all properties purchased in these two six-month periods (2015: none), are valued by Allsop LLP, a firm of Chartered Surveyors, acting as external valuers, who are experienced in property types held by the Group. The remainder of the portfolio is valued on the basis of Market Value by the directors who have relevant experience and professional qualifications with the benefit of outline advice provided by Allsop LLP.

Financing

During the year, the Group operated using the loan facilities provided by HSBC Bank plc ("HSBC"). The facilities in place as at 30 September 2015 were as set out below:

Loan	Facility £m	Amount Outstanding £m	LTV Covenant	Amortisation	Termination Date
HSBC NOS 4 Loan	45.7	44.9	82.5%	0.45% pq for LTV 65%+ 0.25% pq for LTV 60–65% Nil below 60% LTV	30 April 2018
HSBC NOS 6 Loan	19.4	11.1			
Total	**£65.1**	**£56.0**			

At 30 September 2015 the debt outstanding was £56.0m (30 September 2014: £65.1m).

The two facilities provided by HSBC Bank plc ("HSBC") are subject to cross-collateralisation of the corresponding property portfolios, and on each quarterly interest payment date, the loan facilities are subject to actual and forecast interest cover tests. At each testing date during the period the loans were determined to be compliant. The ICR covenant required for the combined loan facility is listed below (each reporting period includes an actual and forecast ratio).

Loan	Actual & Forecast ICR Covenant	Actual ICR – Qtr ending 30 September 2015	Forecast ICR – Qtr ending 30 September 2015
HSBC	130%	165.2%	158.5%

In April 2015 the facilities provided by HSBC were restructured, with the removal of the payment in kind (PIK) margin that had applied from January 2015. This considerably reduced the interest payable over the lifetime of the facility. In order to facilitate this change certain amendments were made to the loan to value ("LTV") and interest cover ratio ("ICR") covenants. Additionally, a loan repayment of £6.9 million was made, immediately reducing the LTV ratio to 72.5% compared with the revised default LTV level of 82.5%.

Other changes to the facilities included the introduction of an LTV ratchet which unlocks lower interest margins and reduced amortisation requirements at lower levels of gearing. Amortisation instalments are paid on each interest payment date, currently calculated at 0.45% of the aggregate loan balance outstanding.

Additionally, the restructuring removed the obligation to hedge interest rate exposure, subject to continuing to satisfy the ICR covenant. In October 2015, this facilitated the termination of the interest rate swap which was due to expire in January 2017. Only cash trapped in accounts controlled by the lender, comprising sales proceeds of geared assets, was used for this purpose. This will reduce future interest payments, increase future ICR, and allow more cash to be released from the loan pool through higher operating cash flow.

The savings in interest payments (PIK and cash margins) from debt renegotiation and swap termination, are estimated at £2.3 million over the remainder of the loan period, compensating for the small reduction in covenant headroom, and the £1.0 million swap termination payment. The Group also holds a considerable amount of cash which could be deployed to repay debt in the unlikely event that a loan covenant is at risk of being breached. Furthermore, the revised debt terms and the optionality provided by the LTV ratchet improves the attractiveness of the portfolio to potential purchasers.

Immediately following the refinance and swap termination, the average cost of debt, including margin was 5.3%. Were the restructuring of the HSBC facilities not undertaken, the cost of debt would have risen to 7.2% immediately and higher thereafter as the PIK interest ratchet increased. The two remaining interest rate swaps expire in July 2016 following which all debt will attract interest of 3 month LIBOR plus a margin of between 1.75–2.0% dependent on the prevailing LTV. Current LIBOR forecasts suggest the cost of debt will fall below 3.0% at this time.

At 30 September 2015 the Group held property assets valued at £5.31 million with no debt secured against them together with cash of £12.7 million (30 September 2014: £15.7 million). The repayment date for both facilities is 30 April 2018.

Joint Ventures and Investments

Investments in joint ventures are equity accounted for during the period of the Group's ownership. During the year the Group continued to hold an interest in the small property joint venture with a financial institution. The joint venture entered members' voluntary liquidation during the year and at the year end the Group had received distributions totalling £0.29 million in respect of its equity holding. Following the dissolution of the joint venture the Company no longer has any investment interests outside it wholly owned subsidiaries.

Taxation

The Group continued to operate as a REIT throughout the year. Accordingly, any profits and gains from the property investment business should be exempt from Corporation Tax provided certain conditions continue to be met. Amounts estimated at £0.1m included in tax relief available for REIT status may become subject to Corporation Tax under s543 CTA 2010 if relief is not granted. In this event, the Company's future tax charge is likely to increase by up to £0.1m.

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.

Outlook

Since shareholders approved the sale of the Group's property assets with a view to paying down debt and returning surplus cash we have sold £90.2m of property at prices reflecting a small premium to book value. As a result the Group is now relatively financially stable with debt gearing having dropped significantly, which has allowed us to restructure the remaining debt to good advantage. In addition, the Group has a sensible cash balance and (if still relevant) will have reasonable cash flow at the expiry of the remaining interest rate swaps in 2016. However, the Board remains very mindful of the need to expedite the sale of the remaining property assets whilst preserving as much shareholder value as is reasonably possible. To that end, although there can be no guarantees, it would not be unreasonable to anticipate further portfolio sales in addition to our ongoing programme of individual property disposals, and shareholders will be updated at the appropriate moment.

Stephen East
Chairman

Strategic Report

Corporate Responsibility

During the year we continued to focus on the three principal contributors to the success of our business:

- the talent and commitment of our management team;
- our relationships with national and local advisers, partners and clients; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

The Company's asset management and accounts team are employed by our fund manager, INTERNOS, having transferred to INTERNOS from the Company two years ago. We continue to work with our network of national and local agents and contractors. We are conscious that our ability to leverage these relationships to address issues as they arise and take early advantage of opportunities largely depends on maintaining our reputation for fairness and a straightforward and honest approach conducting business.

We therefore strive to behave and transact business in accordance with the highest professional standards; all those who act on our behalf are expected to do the same. Besides complying with all relevant legislation and professional guidelines, this includes customer care and external complaint procedures. Our arrangements with INTERNOS, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures.

We have considered whether it is appropriate to report on relevant human rights issues. In the context of our business, we do not believe that the provision of detailed information in this area would provide any meaningful enhancement to the understanding of the performance of our business. However, we are confident that our approach to doing business does not contravene human rights principles or applicable legislation.

Our approach to corporate responsibility matters is underpinned by a whistle-blowing procedure, enabling perceived irregularities to be notified to members of the Board, principally the senior independent non-executive director.

Employees

The Company had no employees during the year.

Health, Safety and Welfare

Subject to the overriding responsibilities held by the directors, INTERNOS is responsible for ensuring that the Company's discharges its obligations in connection with health, safety and welfare, including that of those engaged on the Company's activities. We are pleased with the priority that INTERNOS accords to this area and note also that our property managers and contractors continue to be required to ensure that property management, maintenance and construction activities conform to relevant regulations and that due consideration is given to the welfare of occupants and neighbours. Our managing agents, instructed by INTERNOS, undertake regular checks of gas and electrical installations within the residential elements of our portfolio in conformance with regulatory requirements, and address reported items for improvement, together with a continuing programme of risk assessments covering relevant multi-occupancy sites.

Community and Partnerships

We continue to take seriously our involvement in local communities as an owner of local property assets and we seek to deal constructively with all stakeholders in relation to any community issues that arise. On a day-to-day basis we use local advisers, agents and contractors whenever appropriate.

Environment

We believe that our local asset investment model is by its nature supportive of reducing the carbon impact of retail shopping. Our purchase criteria required our shopping assets to be within easy reach of their customers' homes or workplaces. Our development activity has inevitably reduced following the decision to liquidate the portfolio. However, the development we undertake focuses on the return to profitable use of redundant space that would otherwise remain vacant. We believe that such invigoration of existing shopping locations can alleviate development pressure elsewhere, including on greenfield sites. Construction is carried out in accordance with applicable energy and resource saving standards, noise impact reduction requirements, and, where relevant, the need to preserve the character of buildings, including listed properties. We continue to use local agents and contractors wherever possible. Our contractors are required to dispose of waste in accordance with best practice.

Our Governance

Board of Directors

Stephen East

Independent Non-Executive Chairman, aged 57

Stephen East joined the Board in September 2009, having previously served as Finance Director of MEPC plc and as Finance Director of Woolworth Group plc. He holds non-executive directorships of Marwyn Management Partners plc and Snoozebox Holdings plc. He also serves on the board of Genesis Housing Association. He has previously held non-executive appointments with Regus Group plc, Star Energy Group plc and CQS Diversified Fund Limited. Stephen is a Chartered Accountant and a Fellow of the Association of Corporate Treasurers. He took over as Chairman of the Company during the early part of the year. Stephen also chaired the Remuneration Committee during the year and he serves on the Audit Committee.

Steven Faber

Executive Director, aged 41

As Head of UK Investment Management at INTERNOS, Steve Faber holds primary responsibility for executing the agreement between the Company and INTERNOS for the management of LSR's investment property portfolio in accordance with the Company's investment strategy. Steve is a Chartered Surveyor with 18 years' experience gained across all UK Market sectors. He began his career with Tesco Stores PLC where he had a UK-wide remit dealing with operational and investment properties, he later joined Land Securities Trillium where he advised the Government and the BBC on occupation strategies. Steve then became Director and Head of UK Asset Management at Deutsche Bank's alternative investment manager RREEF, responsible for real estate in excess of £2bn in a role encompassing full life cycle ownership of assets. Steve holds FCA authorisation as an Investment Manager.

Nicholas Vetch

Senior Independent Non-Executive Director, aged 54

Nick Vetch trained as a Chartered Surveyor before becoming Chief Executive of Edge Properties which he founded in 1989. In 1998 he founded Big Yellow Group PLC, of which he is Executive Chairman. He has previously been a non-executive director of Blue Self Storage SL, which operates in Spain. Nick took over as Chairman of the Audit Committee during the year following Stephen East's appointment as Chairman of the Company. He also serves on the Remuneration Committee.

Company Secretary

William Heaney

Our Governance

Corporate Governance Report

The Company is subject to, and complies with, the Listing Rules and the Disclosure & Transparency Rules of the Financial Conduct Authority. During the year the Company was also subject to the UK Corporate Governance Code 2014 ("the Code") promulgated by the Financial Reporting Council. This Report sets out the ways in which the Company applies the Main Principles of the Code. Subject to matters set out below, the directors consider that the Company complies with all provisions of the Code to the extent to which they apply to companies outside the FTSE 350.

Board Responsibilities and Operation

The Company is led by the Board, which is responsible for determining the strategy of the business and its effective stewardship. All major strategic and investment decisions are taken by the Board as a whole and there is a formal schedule of items reserved for consideration by the Board. The Board meets regularly to review the Company's operations and progress with its strategy. The Board held seven meetings during the year. Each Board meeting has a formal agenda. All material aspects of the business are reviewed on a regular basis, with key items highlighted, to enable the Board to monitor well-being and progress. These include portfolio performance, acquisitions and sales, asset management, investment in joint ventures as well as finance, business development and health, safety and welfare and environmental matters. Risk management and controls are reviewed in the light of advice from the Audit Committee and the external auditors. In consultation with the Board and committee Chairmen, the Company Secretary ensures that all directors receive relevant reports and papers prior to each meeting. Additional meetings and discussions are arranged outside the Board's regular schedule as necessary.

During the year the relevant executives of the Company's fund manager, INTERNOS to whom day-to-day operational management was delegated, consulted the non-executive directors on a regular basis outside normal Board meetings. The non-executive directors also make themselves available to provide advice to the management team. The non-executive directors hold meetings and discussions in the absence of the executive team.

The division of responsibilities between executive team and the non-executive directors is clearly defined and recorded via the Company's investment advisory agreement with INTERNOS. The Chairman is charged with responsibility for corporate governance and effective leadership of the Board and INTERNOS, through the Company's executive director, Steve Faber, is responsible to the Board for the executive management of the business. The Board also benefits from the expertise of INTERNOS in wider property and investment market matters.

The Chairman is responsible for ensuring that due consideration is given to key items of business. The senior independent director provides a separate communication channel for shareholders and other interested parties, and has a remit under the Company's "whistle-blowing" arrangements.

The responsibilities of each non-executive director are set out clearly in his letter of appointment, which is available for inspection by members at the Company's registered office during normal office hours. All directors ensure that they provide sufficient time to fulfil their duties. All directors have access to the advice and services of the Company Secretary, and there is an agreed procedure whereby directors can take independent professional advice at the Company's expense.

Board Composition

Biographical details for each of the directors, including their membership of the Board's committees, are set out on page 13. All the directors listed held office throughout the year to 30 September 2015. The Company's former non-executive Chairman, Grahame Whateley, left in October 2014. Following Mr Whateley's departure, the Board comprised an independent non-executive Chairman, one further independent non-executive director (who was also the senior independent non-executive director) and one executive director. Non-executive directors were therefore in the majority throughout the year. Following the departure of Grahame Whateley, the Company was chaired by Stephen East.

Having considered the criteria set out in the Code and the character and attributes of each individual, the Board considers each of the non-executive directors (Stephen East and Nicholas Vetch) to be independent within the spirit of the Code and that no individual or group can dominate decision-making.

The Company's Articles of Association require any director appointed to the Board during the year to be reappointed at the next Annual General Meeting. Under the Articles, all directors are, as a minimum, subject to retirement and re-election at every third Annual General Meeting following their initial election. However, since 2012 the directors have adopted a best-practice policy whereby each director resigns and offers himself for re-election at each Annual General Meeting, even though this is not a strict requirement for companies outside the FTSE 350. This policy was applied at the 2014 Annual General Meeting, when all directors then holding office were reappointed.

Board Committees

The Board has established Audit, Remuneration and Nomination Committees. The minutes of each committee meeting are circulated to the Board as a whole. Each committee operates within terms of reference determined by the Board having regard to independent external guidance. Terms of reference for each committee are available on the Company's website www.localshoppingreit.co.uk. The work of the committees is described below.

Nomination Committee

The Nomination Committee comprises three directors, the majority of whom must be independent non-executive directors. The Committee is responsible for approving all director appointments and is responsible for ensuring that the required standards of skills, experience and stewardship ability are met. In appointing new directors, the Committee and the Board consider advice from external professional consultants. The Board's policy is for candidates to be interviewed separately by executive and non-executive directors. The Committee has formal terms of reference approved by the Board and is chaired by the Company's senior independent non-executive director. As the Committee did not meet during the year and bearing in mind the planned timetable for liquidating the Company's investments, the directors consider that to provide a detailed report on the Committee's activities and policies would not enhance an understanding of the Company's corporate governance regime.

Audit Committee

The Audit Committee comprises the Board's two independent non-executive directors, Stephen East and Nick Vetch. At the beginning of the year the Committee was chaired by Stephen East. However, following Mr East's appointment as Chairman of the Company, Nick Vetch took over as Chairman of the Committee, the Board considering Mr Vetch to have the requisite skills and experience to chair the Committee. The Company Secretary acts as secretary to the Committee. The report of the Audit Committee can be found on page 28.

The Committee's responsibilities include:

- monitoring the integrity of the Company's financial statements and formal announcements relating to its financial performance and reviewing significant financial reporting judgements contained in them (subject to the Board's overall responsibility for reviewing and approving the annual directors' report and financial statements);
- reviewing the adequacy and effectiveness of the Company's internal financial controls, internal control and risk management systems, fraud detection, regulatory compliance and whistle-blowing arrangements;
- making recommendations to the Board for the approval of shareholders on the appointment, re-engagement or removal of the external Auditors and approving the Auditors' terms of engagement and remuneration;
- overseeing the Company's relationship with the external Auditors, reviewing and monitoring the Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration UK professional and regulatory requirements;
- approving the annual audit plan and reviewing the Auditors' findings and the effectiveness of the audit programme;
- developing and implementing policy on the engagement of the external Auditors to supply non-audit services, taking account of relevant ethical guidance, and making recommendations to the Board in respect of any action or improvement that may be needed;
- reporting to the Board on how the Committee has discharged its activities.

The Committee continues to consider that the Company's size and activities do not warrant the establishment of an internal audit function.

Other members of the Board may attend the Committee's meetings by invitation. Representatives of the Company's Auditors, KPMG LLP ("KPMG"), also attend the Committee's meetings and the Committee's Chairman also holds discussions with the Auditors in the absence of executive directors and members of the management team. KPMG LLP have provided the directors with written confirmation of their independence.

Our Governance

Corporate Governance Report

Remuneration Committee

Full details of the membership of the Remuneration Committee and the Company's remuneration policy are set out in the Remuneration Report on pages 24 to 26. The Committee met twice during the year.

Each member's attendance record at Board and Committee meetings is set out in the table below:

Director	Board	Audit	Remuneration	Nomination
Stephen East	7	4	2	–
Steve Faber	7	–	–	–
Nick Vetch	6	4	2	–
Grahame Whateley*	–	–	–	–

* Left 16 October 2014.

Performance Evaluation of the Board and its Committees

The membership, remits and operations of the Board and its Committees are subject to annual evaluation, a process led by the senior independent director supported by the Company Secretary.

Directors' interests in contracts

During the year:

1. The Company had a contract with INTERNOS Global Investors Limited, which employs Steve Faber as a senior executive, for the provision of investment advisory and fund management services. Subject to this no director had any material interest in any contract or arrangement with any company within the Group; and
2. No director had any beneficial interest in any subsidiaries of the Company.

The interests of the directors who held office during the year in the issued share capital of the Company as at the date of this report, all of which were beneficial, are set out below:

	Ordinary 20p Shares	
Director	**2015**	2014
Stephen East	**75,000**	75,000
Steve Faber	**3,574**	3,574
Nicholas Vetch	**2,873,563**	2,873,563
Grahame Whateley*	**Not applicable**	8,097,376

* Left 16 October 2014.

None of the Directors have any interest in employee share schemes.

The Company's Articles of Association provide a framework for directors to report actual or potential situational conflicts, enabling the Board to give such situational conflicts appropriate and early consideration. All directors are aware of the importance of consulting the Company Secretary regarding possible situational conflicts.

Directors' Indemnities and Insurance Cover

To the extent permitted by law, the Company indemnifies its directors and officers against claims arising from their acts and omissions related to their office. In accordance with the Code, the Company also maintains an insurance policy in respect of claims against directors.

Directors' Performance Appraisal

The non-executive directors provide feedback on the performance of the executive team, including the executive director, within the terms of the investment advisory agreement with INTERNOS.

Director Induction

Arrangements are made to provide new directors with an induction programme into the Company's activities. Non-executive directors visit the Company's offices between formal meetings and discuss the Company's activities with members of the management team on an informal basis. The asset management team are pleased to make arrangements for directors to inspect investment properties.

Principal Risks

The directors recognise that commercial activities invariably involve an element of risk. The directors recognise that a number of the risks to which the business is exposed, such as the condition of the UK domestic economy, are external and beyond the Company's power to influence. However, such risk areas are monitored and appropriate mitigating action, such as reviewing the substance and timing of the Company's operational plans, is taken in response to significant changes. The Audit Committee considers the risk areas the Company is exposed to in the light of prevailing economic conditions and the risk areas set out in this section are subject to review. The approach to risk management takes account of the revised investment strategy adopted by shareholders in July 2013. In relation to asset management it reflects the Company's granular business model and position in the market and involves the expertise of its fund management team and third party advisers. The management team evaluates each investment, disinvestment and asset management decision on its own merits within the Company's overall investment policy. Operational progress and key investment and disposal decisions are considered in regular management team meetings as well as being subject to informal peer review.

Higher level risks and financial exposures are subject to constant monitoring. Major investment and disposal decisions are subject to review by non-executive directors in accordance with a protocol set by the Board. This approach is adopted for large portfolio sales, proposals for which are considered carefully by the Board.

Potential Risk	Impact	Mitigation
Property Portfolio Performance		
Effect on tenants of downturn in macroeconomic environment	• Tenant defaults • Reduced rental income • Increased void costs • Reduction in Net Asset Value and realisation value of assets	• Rental arrears continually monitored – early identification of/discussions with tenants in difficulties • Regular review of all properties for lease terminations and tenant risk, with early action to take control of units when appropriate • Limited requirement for tenant incentives within sub-sector • Close liaison with local agents enables swift decisions on individual properties • Tendency of small traders to take early action in response to economic conditions • Diverse tenant base • Sustainable location and property use
Higher than anticipated property maintenance costs	• Costs not matched by income streams and/or improvement in property value	• All material expenditure authorised by asset manager and director • Capital expenditure subject to regular review • Focus on sale of assets with high potential capital expenditure
Changes to legal environment, planning law or local planning policy	• Adverse impact on portfolio • Loss of development opportunity • Reduction in realisation value of assets	• Monitoring of UK property environment and regulatory proposals • Close liaison with agents and advisers • Membership of and dialogue with relevant industry bodies
Failure to comply with regulatory requirements in connection with property portfolio, including health, safety and environmental	• Tenant and third party claims resulting in financial loss • Reputational damage	• Managing agents and professional advisers provide guidance on regulatory requirements • Asset managers and agents monitor individual properties • Managing agents operate formal regulatory certification process for residential accommodation • Ongoing programme of risk assessments for key multi-tenanted sites • Insurance policies cover key risks

Our Governance

Principal Risks

Potential Risk	Impact	Mitigation
Corporate Governance & Management		
Non-availability of information technology systems or failure of data security	• Impact on operations and reporting ability • Financial claims arising from leak of confidential information	• INTERNOS has effective security regime with off-site data back-up
Financial and property market conditions	• Insufficient finance available at acceptable rates to fulfil business plans • Inability to execute investment property disposal strategy owing to fall in property market values • Financial impact of debt interest • Breach of banking covenants	• Debt facilities in place • Disposal programme aimed at lowering loan finance risks • Appropriate level of hedging in place • Impact of interest rates on property yields monitored and investment / disposal policy adjusted accordingly

Internal Governance

The directors recognise that the Company's ability to operate successfully is largely dependent on the maintenance of its straightforward approach to doing business and its reputation for integrity. All those who act on the Company's behalf are therefore required to behave and transact business in accordance with the highest professional standards. This includes, as appropriate, complying with the requirements of the Model Code, Anti-money Laundering regulations, the Data Protection Act and the Bribery Act, as well as customer care and external complaint guidelines. The Company's arrangements with INTERNOS, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures. The Company's corporate governance regime is underpinned by a whistle-blowing procedure, enabling perceived irregularities to be notified to members of the Board, principally the senior independent non-executive director.

Internal Controls

The Board has overall responsibility for the Company's internal control systems and for monitoring its effectiveness. The Board's approach is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatements or loss. The directors do not believe that it is appropriate to establish a separate internal audit function, having regard to the Company's size. The Board has examined and is satisfied that the control processes adopted by INTERNOS are appropriate to the Company's business. The Board's approach to internal controls covers all companies within the Group and there are no associate or joint venture entities which it does not cover. A summary of the principal risks to which the business is exposed may be found on pages 17 and 18. The principal foundations of the Company's internal control framework are:

- statements of areas of responsibility reserved to the Board and its committees, with prescribed limits to executive directors' authority to commit to expenditure and borrowing;
- effective committee structure with terms of reference and reporting arrangements to the Board;
- clear remits for the delegation of executive direction and internal operational management functions, set out in the investment advisory agreement with INTERNOS;
- framework for independent directors to provide advice and support to executive directors on an individual basis;
- top-level risk identification, evaluation and management framework monitored by the Audit Committee;
- effective systems for authorising capital expenditure and significant revenue items and monitoring actual cost incurred;
- regular reporting to the Board of operational results against expectations with commentary on variances;
- regular review of operational forecasts and consideration by the Board on a quarterly basis;
- regular review of the Company's funding requirements against the status of the financial markets and the continuing effectiveness of the Company's hedging arrangements; and
- quarterly reporting to the Board of health, safety and environmental matters.

As part of its half-year and year-end activities, the Board reviews the effectiveness of the Company's risk management systems against the principal risks facing the business and their associated mitigating factors, taking into account the findings and recommendations of the Auditors. Following its review of the Auditors' findings during 2014–15 and its examination of the control framework established by INTERNOS the Board considers that the Company's approach is acceptable.

Our Governance

Corporate Governance Report

Investor Relations

The directors place considerable emphasis on effective communications with the Company's investors. Directors are happy to comply with shareholder requests for meetings as soon as practicable, subject to regulatory constraints. The Board is provided with feedback on these meetings, as well as regular commentary from investors and the Company's bankers and advisers. The Board provides reports and other announcements via the regulatory news service in accordance with regulatory requirements. Regulatory announcements and key publications can also be accessed via the Company's website. The Company's Annual General Meeting provides a further forum for investors to discuss the Company's progress and the Board encourages shareholders to attend. The Company complies with relevant regulatory requirements and also the UK Corporate Governance Code in relation to convening the meeting, its conduct and the announcement of voting on resolutions. The Annual Report and Notice of the Annual General Meeting are sent to shareholders at least 20 working days prior to the meeting and are available on the Company's website. The results of resolutions considered at the Annual General Meeting are announced to the Stock Exchange and are also published on the website and lodged with the National Storage Mechanism. Investors may elect to receive communications from the Company in electronic form and be advised by email that communications may be accessed via the Company's website.

Acquisitions and Disposals

During the year the Company sold 37 properties for an aggregate price of £5.33 million, a gross premium of 9.1% of the combined valuations at the time the properties went under offer.

The Group made no material acquisitions during the year.

Group Companies

The subsidiary undertakings of the Company are set out in note 22 to the financial statements.

Group Result and Dividend

The profit for the Group attributable to shareholders for the year was £0.02m (2014: profit £1.21m). The recurring profit for the year was 0.3p per share (2014: 0.8p). The definition of recurring profit is set out in the glossary of terms at the end of the Report. In accordance with the revised investment policy, no interim dividend has been or will be distributed in respect of the financial year. The directors will keep the dividend distribution policy under review.

Use of financial instruments

The Company's use of financial instruments to reduce its exposure to risks arising from interest rate fluctuations is described in notes 17 and 18 to the financial statements.

Share Capital

Details of the Company's issued share capital are set out in note 14 to the financial statements. All of the Company's issued shares are listed on the London Stock Exchange. The Company's share capital comprises one class of Ordinary Shares of 20p each. All issued shares are fully paid up and rank equally. Shares acquired through the Company's employee share schemes rank pari passu with shares in issue and no shares carry special rights regarding control of the Company. The Company's Articles impose requirements on shareholders in relation to distributions and the size of individual holdings, in order to ensure that the Company continues to conform to the UK REIT regime. Subject to this, there are no restrictions on the transfer of shares or the size of holdings. The directors are not aware of any agreements between shareholders in relation to the Company's shares. The Company's issued share capital did not alter during the year.

Transactions in the Company's shares

The Company's previous authority to purchase its own shares was extended at the Annual General Meeting in March 2015, which authorised purchases of up to 14.99% of the Company's issued Ordinary Share capital (excluding shares held in treasury). This authority will expire at the 2016 Annual General Meeting, at which a resolution will be proposed for its renewal. The directors exercise their authority to purchase the Company's shares only when they consider it in the Company's best interests to do so. No share purchases were made during the year.

The directors are also authorised to offer shareholders the alternative of receiving fully paid Ordinary Shares in lieu of dividends. This authority was not used during the year.

Substantial Interests

As at 10 December 2015, the last practicable reporting date before the production of this document, the Company had been notified of the following major interests (of 3% or more) in its issued share capital:

Shareholder	Ordinary Shares	%
Damille Investments Limited	20,300,000	24.6
Thames River Capital LLP	9,204,324	11.16
J G Whateley	8,097,376	9.82
Schroders Plc	5,726,900	6.94
Deutsche Asset & Wealth Management	3,616,928	4.38
Credo Capital Plc	2,895,422	3.51
N J Vetch	2,873,563	3.48
Alliance Trust Savings Limited	2,745,427	3.33
Value Investments Limited	2,481,000	3.01

Effect of change of control on significant contracts

Funding agreements entered into by certain Group companies require the written approval of the relevant bank before any change can be made to the nature, constitution, management or ownership of the business. The employment contracts of directors do not contain any provisions specifically relating to a change of control. The Company's employee share schemes contain change of control provisions which are considered to be standard for such schemes.

Key Contracts

The Company has in place an agreement with INTERNOS Global Investors Limited ("INTERNOS") to execute the Group's new investment policy and to take responsibility for the management and performance of the Company's investment property portfolio. Details of the investment advisory agreement with INTERNOS, including remuneration arrangements, are contained in note 23 to the financial statements.

Details of the Group's continuing loan and banking facility agreements with HSBC Bank plc are set out in the Banking Facilities section of the Finance Review.

Carbon Reporting

Scope

The directors believe that the Company's outsourced business model, which focusses on the employment of agents, advisers and contractors who are local to our property assets, is inherently environmentally friendly. However, the collection of consumption data from such businesses is not practicable. It is also not possible for our national agents and advisers to separately identify such data in relation to the proportion of their work devoted to the Company's activities and it is not possible to measure the energy consumed by the Company's tenants (nor is this consumption within the Company's control). The consumption of water, waste output and greenhouse gases other than CO_2 within the Company's control is negligible.

Accordingly, the scope of the Company's environmental reporting focuses on energy consumed by the Company and its wholly owned subsidiaries through:

- the activities of INTERNOS in relation to the Company's business;
- shared facilities provided by the Company within its property portfolio;
- activities within vacant properties.

Our Governance

Corporate Governance Report

Carbon Emissions Data

In relation to the Scope 1 figures it is not possible to separately identify the gas consumed on our activities within the INTERNOS office and the only meaningful data that can be supplied relates entirely to fuel consumed on journeys between our property sites. As we do not have a company car fleet, all such journeys are made in employees' private vehicles. We have assessed vehicles used against the categories given on the DEFRA website. The use of hire cars and air flights has been minimal.

The Scope 2 figures incorporate an estimate (on a per desk basis) of the energy consumed in relation to our activities within the London office of INTERNOS, together with consumption in our vacant properties for which we are responsible. This includes any electricity used in relation to development work in the conversion or remodelling of premises, as well as standing charges for electricity connections. Given the granularity of the Company's property portfolio it is not been practicable to separate this element from the amount of electricity actually consumed.

The variations in both the Scope 1 and Scope 2 figures in relation to 2014 is likely to be related to the disposal of a significant number of properties immediately prior to and during the year.

Our direct usage and emissions of water is minimal, being largely confined to hygiene and refreshment purposes within the INTERNOS office. Again, it is not practicable to apportion this for the Company's activities. A small element of utility supply within vacant premises will relate to water and to gas. However, this largely relates to standing charges and consumption is negligible.

The data has been compiled using the software tools available on the DEFRA website.

	2015 Kg CO_2e	**Kg CO_2e per £1m t/o**	2014 Kg CO_2e	Kg CO_2e per £1m t/o
Scope 1 (gas and fuel)	**2,183**	**285**	3,806	275
Scope 2 (electricity)	**9.437**	**1,231**	16,065	1,160
Total gross emissions	**11,620**		19,871	

Employee Share Schemes

During the year the Company operated The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2014, details of which are set out in the Remuneration Report on page 24. No awards vested under this scheme during the year.

The Company's Employee Benefit Trust operates to supply shares as appropriate to meet obligations arising from employee share schemes. The voting rights of shares held by the Employee Benefit Trust are identical to the remainder of the Company's issued share capital.

REIT Regime

The Company is subject to the regulatory regime for UK Real Estate Investment Trusts.

Political Donations

During the year the Company made no donations for political purposes (2014: nil).

Amendment of Articles

The Company has no rules in place in relation to the amendment of its Articles in addition to statutory provisions.

Auditors

The Company's Auditors, KPMG LLP, will resign at the conclusion of the forthcoming Annual General Meeting, at which a resolution for their reappointment will be proposed.

Viability Statement

In accordance with the UK Corporate Governance Code 2014, the directors have assessed the Company's viability over the coming three financial years to 30 September 2018, taking account of:

- likely progress with the execution of the Company's investment strategy;
- the expiry of the Company's current loan finance facilities in April 2018, the potential requirement for renewed facilities and the prospects for such facilities being available;
- the potential impact of the principal risks and mitigation factors described on pages 17 to 18.

The directors consider that the period to 30 September 2018 is appropriate for assessing the Company's viability, bearing in mind the Company's investment policy of liquidating the property portfolio, paying down debt and returning surplus finds to shareholders. The directors are pursuing a number of approaches for selling down the property portfolio and note that this may take several years to achieve, depending on market conditions. The directors review progress with the investment strategy on a regular basis. The directors note that a number of alternative strategies remain available to the Company and they will continue to evaluate these, making recommendations to shareholders on alternative strategies if appropriate.

The directors' review noted the diversity of the Company's tenant base across retail sectors and its geographical spread around the country, reducing reliance on a few significant tenants or a single region. The directors also note that the Company has conformed to all covenants throughout the year and that the Company's overall loan to value ratio has progressively diminished since the revised investment strategy was adopted in July 2013. The directors have prepared profit and cashflow forecasts for the period to 30 September 2018 which include assumptions on the timing and manner of the liquidation of the property portfolio (whilst recognising the inherent uncertainty regarding these assumptions). These forecasts project the Company's funding needs will be comfortably met by its existing banking facilities agreements without any breach of related covenants over the remaining life of the facilities to April 2018. In the event that the Company continues to trade after April 2018, the directors have a reasonable expectation of securing banking facilities with comparable terms to enable the Company to trade for the period to 30 September 2018. Based on this assessment, the directors have a reasonable expectation that the Company will be able to remain in operation and meet its liabilities as they fall due over the three financial years to 30 September 2018. In providing this opinion the directors recognise the possibility that selling down the property portfolio and returning cash to shareholders may be achieved prior to that date. Accordingly, the directors consider it appropriate that the financial statements have been prepared on the going concern basis.

Responsibilities Statement

The directors confirm that to the best of their knowledge:

- the report of the directors includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

Our Governance

Remuneration Report

Remuneration Committee Chairman's Statement

During the year the Committee operated in accordance with formal terms of reference set by the Board, within which it has been responsible for:

- determining the broad policy for the remuneration and benefits of the Company's executive directors and senior managers;
- approving the design and performance targets for share-related performance plans for the Company; and
- determining the individual remuneration packages of each director, giving due regard to the provisions and recommendations of the Code and the Listing Rules.

The Committee comprises independent non-executive directors. The following directors served on the Committee during the year:

Stephen East;
Nick Vetch; and
Grahame Whateley (left 16 October 2014).

Mr East became Chairman of the Committee with effect from 16 October 2014 when Mr Vetch, who chaired the Committee up to that date, became Chairman of the Audit Committee. Biographical details of the members of the Committee are set out on page 13. The Committee met twice during the year.

Other than the Company Secretary, who serves as secretary to the Committee, other directors or executives attend meetings of the Committee only by invitation. The Committee has access to independent remuneration consultants.

Remuneration Policy

This report should be considered bearing in mind that the Company had no employees at any time during the year, those of its former employees still working on the Company's activities being engaged by INTERNOS.

The Company's remuneration policy, which would apply should the Company make relevant appointments in the future, has been based on the principles set out below:

- within a competitive market, enabling the recruitment and retention of individuals whose talent matches the entrepreneurial and leadership needs of the business, enabling the Company to fulfil its investment objectives for its shareholders; and
- placing emphasis on performance-related rewards and focusing on incentive targets that are closely aligned with the interests of shareholders.

Salary and Benefit Mix

In the past the Committee has reflected these principles in the remuneration packages adopted for the executive directors and senior managers, with fixed remuneration set at less than the median for companies in the FTSE real estate sector and total remuneration including performance-based awards being aimed at between the median and upper quartile relative to the sector. The Company has also provided pension, healthcare and insurance benefits where appropriate in relation to market norms. It has been the Company's policy to use long-term share-based incentive schemes to incentivise employees to contribute to the success of the business.

The Remuneration Committee ("the Committee") continued to be responsible for the operation of the Company's long-term share-related performance plans (the Long Term Incentive Plan and the Company Share Option Plan) during the year. However, neither of these plans were operated during the year, the participatory rights under each of them having lapsed during prior years.

The independent non-executive directors engage with INTERNOS with the aim of ensuring that those working on the Company's portfolio, including the Company's former employees, are appropriately incentivised. During the year the Company had in place a share-based retention and incentive plan ("The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2014"), related to the execution of the investment strategy, for members of the asset management team eligible to participate in such arrangements under the terms of the Employee Benefit Trust. This was a short-term arrangement which expired on 30 September 2015. No awards vested under the scheme during the year. The Company has put in place a similar arrangement for 2015–16.

In the event that the directors consider it to be in shareholders' interests for the Company to directly engage members of staff, including executive directors, the remuneration policy set out in this report will be applied. In applying the remuneration policy, the Committee will use its discretion, within the terms of schemes previously adopted by the Company, to provide a tailored mix of benefits that encourages individuals to maximise their efforts in the best interests of shareholders. In particular, the remuneration policy would be subject to any special considerations that may arise in relation to the execution of the Company's revised investment policy.

Director Appointments

Under the Company's Articles one-third of the directors are subject to retirement at each Annual General Meeting. However, recognising the best practice provisions of the UK Corporate Governance Code, the Board has implemented a policy for directors to be subject to re-election at each Annual General Meeting. Additionally, the Articles require that director appointments made by the Board directors are ratified at the subsequent General Meeting of the Company.

For non-executive directors, the Company's policy is for initial appointments to be for a term of 12 months, subject to extension by periods of 12 months thereafter and also subject at any time to termination on notice by the Company or the director. This policy is reflected in the terms of the formal appointment document which is in place for each non-executive director, which also sets out the expected time commitment of the non-executive directors to the Company's affairs.

For executive directors, the Company's policy is for service contracts not to be capable of termination by the Company at not more than one year's notice.

See Table 2 on page 27.

Non-Executive Pay

The Company's policy is for reviews of non-executive remuneration to be conducted by independent consultants commissioned by the Company Secretary and for such reviews to take place every three years. However, given the Company's changed circumstances, the Board has not considered it appropriate to review non-executive pay and the level of non-executive pay has not changed since the Company's flotation in May 2007. Further consideration will be given to carrying out a review during 2015–16.

Payments on Loss of Office

The Company's policy on payments to directors on loss of office, in the absence of a breach of contract or other misconduct by the director, is to seek agreement to a termination settlement based on the value of base salary and contractual entitlements that would have applied to the director during his or her contractual notice period. The Remuneration Committee will determine the extent to which it is in the Company's best interests for the director work during his or her notice period, or (to the extent permissible under his or her contract) to be required not to undertake duties or attend at the Company's premises or receive a payment in lieu of notice. The Committee may seek to require mitigation where it appears to it that it is reasonable in all the circumstances to do so.

Should it appear to the Company that the director may pursue a claim against the Company in respect of a breach of employment rights in addition to his or her contractual entitlement, the Committee may authorise settlement terms with the director that it considers to be reasonable in all the circumstances and in the best interests of the Company.

Shareholder Approval

A resolution concerning shareholder approval of the implementation of the Company's remuneration policy, as described in the Remuneration Implementation Report, below, will be put to the Company's Annual General Meeting in March 2016.

Our Governance

Remuneration Report

Remuneration Implementation Report

This section sets out the ways in which the Company applied its remuneration policy during 2014–15.

As the Company employed no executive directors during the year (Steve Faber being an employee of INTERNOS), this report does not refer to executive pay and benefits.

The level of fees paid to non-executive directors was set at the time of the Company's admission to the Official List of the London Stock Exchange having regard to market levels at that time. The level of remuneration for non-executive directors, which is set out in the table below, did not change during the year.

At the Company's 2015 Annual General Meeting shareholders passed a resolution approving the Remuneration Implementation Report for 2013–14, with no votes against at the meeting and proxy votes for each resolution showing a majority of 99.98% of votes cast.

Directors' Contracts and Terms of Appointment

Nick Vetch has an appointment document dated 30 March 2007, subject to annual extensions. Stephen East has an appointment document dated 9 September 2009, subject to annual extensions. Steve Faber is an employee of INTERNOS Global Investors Limited.

Grahame Whateley, who left the Board on 16 October 2014, had an appointment document dated 30 March 2007, subject to annual extensions.

Copies of the directors' service agreements are kept at the Company's registered office, where they are available for inspection by shareholders during usual business hours on weekdays.

Investor Commentary

During the year the Company did not receive any communications from shareholders specifically regarding directors' pay.

Save as indicated below, the remainder of this report has been audited.

Table 1: Directors' Total Remuneration 2014–15

Director	Salary	Short-term incentives	Long-term incentives	Pension contributions	Benefits in kind	Total
Non-executive directors						
Stephen East	30,000	–	–	–	–	30,000
Nick Vetch	30,000	–	–	–	–	30,000
Grahame Whateley*	2,150	–	–	–	–	2,150
Executive directors						
Steve Faber	–	–	–	–	–	–
Total	62,150	–	–	–	–	62,150

The figures in the above table were unchanged from 2013–14, other than the salary for Grahame Whateley, which was £50,000 in 2013–14.

Table 2: Directors' Service Contracts

	Date of initial appointment	Date of current appointment letter	Expiry of term
Non-executive directors			
Stephen East	10 September 2009	10 September 2015	9 September 2016
Nick Vetch	30 March 2007	30 March 2015	29 March 2016
Grahame Whateley*	20 September 2004	Not applicable	Not applicable
Executive directors			
Steve Faber	Not applicable	Not applicable	Not applicable

Table 3: Directors' Interests in the Company's Shares

	Ordinary 20p Shares	
Director	**2015**	2014
Stephen East	**75,000**	75,000
Steve Faber	**3,574**	3,574
Nicholas Vetch	**2,873,563**	2,873,563
Grahame Whateley*	**Not applicable**	8,097,376

* Left 16 October 2014.

Stephen East
Remuneration Committee Chairman

Our Governance

Audit Committee Report

The Committee met four times during the year and each member's attendance record is set out in the table on page 16. During the year the Committee paid particular attention to the significant areas set out below, which were discussed in detail with the Auditors.

Valuation of Investment Properties

A key area of focus for the Committee were the valuations provided by Allsop LLP ("Allsop") together with the internal directors' valuation and the methodology adopted in both cases. During the year we reviewed the valuations as part of the year end process for 2013–14 and again at the half year at 31 March 2015. Since the year end the Committee we have reviewed the valuation process for 30 September 2015. As in previous years Allsop LLP carried out an independent "red book" valuation on 25% of the investment property portfolio in March and a further 25% in September. Allsop also provided guidance regarding the internal directors' valuation. We took comfort from the consistency of approach between the Allsop valuation and the directors'.

Going Concern Assumption

Consideration was given to technical implications for the Going Concern assumption in connection with the new investment policy, the sale during the year, in furtherance of the investment policy, of a large element of the Company's investment properties and ongoing initiatives for the execution of the investment policy. In concluding that it was appropriate for the Going Concern assumption to apply, the Committee noted the inherent uncertainty regarding the timing and manner of the execution of the investment policy, as well as alternative strategic options available to the Company. The Committee also took note of management forecasts that the Company should continue to operate comfortably within its banking facilities during the lifetime of the facilities.

The Committee also covered the following items:

- ensuring that the format of the financial statements and the information supplied meets the standards set by the International Accounting Standards Board;
- reviewing the accounting treatment of receivables and ensuring effective co-ordination between the Company's records and those of its managing agents;
- ensuring that the audit scope properly reflected the risk profile of the business;
- ensuring that the Committee's terms of reference continued to accord with the Code.

In accordance with the Code, as part of the Company's year-end process we also assessed the effectiveness of the external audit process during the year (including the full-year audit and the Auditors' half-year review). In doing so, the Committee again noted that KPMG have been the Company's Auditors since its stock market listing in 2007. Having carefully considered the outcome of this exercise and bearing in mind the Company's investment policy, the Committee decided that it was appropriate to recommend that KPMG be reappointed as Auditors to the Company for a further year whilst continuing to monitor and comply with applicable statutory and regulatory requirements in audit rotation and tender process.

KPMG LLP and its related entities provide non-audit services to the Company, in particular tax advice in connection with the Company's REIT status. In order to safeguard the objectivity of the Auditors, strict procedures are in place for the engagement of KPMG entities in non-audit work. All work undertaken by KPMG is notified to the Chairman of the Audit Committee and careful consideration is given to whether such work might give rise to a conflict of interest. The Chairman of the Audit Committee must separately authorise any item of work that could result in fees being paid in excess of 50% of the audit fee in any year.

Nick Vetch
Audit Committee Chairman
16 December 2015

Directors' Report

The directors of The Local Shopping REIT plc ("the Company") present their report and the audited financial statements of the Company together with its subsidiary and associated undertakings ("the Group") for the year ended 30 September 2015.

The Directors' Report also includes the information set out on pages 13 to 29 together with the description of the Company's investment policy and business model set out on pages 5 and 6.

The Company is a public limited company incorporated in England under registered number 05304743, with its registered office at 65 Grosvenor Street, London, W1K 3JH.

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The directors are responsible for preparing their annual report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires that the directors prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of their profit or loss for the relevant period.

In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a directors' remuneration report and a corporate governance statement, each of which conforms to the relevant law and regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable in accordance with the UK Corporate Governance Code 2014, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Independent Auditor's Report is set out on pages 30 to 32. So far as the directors are aware, there is no information relevant to the Auditors' preparation of their report that has not been disclosed to the Company's Auditors. Each director has taken all steps required of a director to ensure that he is aware of any information relevant to the audit and to establish that all such information has been disclosed to the Auditors. The directors consider that the sections headed Performance Review, Finance Review, Corporate Governance and the Remuneration Report together fulfil the requirement for an enhanced Business Review under section 417 of the Companies Act 2006. The Strategic Report and the Directors' Report together comprise the management report as required by the Disclosure and Transparency Rule 4.1.8R.

The Corporate Governance section is a statement for the purposes of the Disclosure and Transparency Rule 7.2.1.

The foregoing reports were approved by the directors on 16 December 2015.

William A Heaney
Company Secretary

Our Financials

Independent Auditors' Report

to the members of the Local Shopping REIT plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of The Local Shopping REIT plc for the year ended 30 September 2015 set out on pages 33 to 58. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

- **Valuation of investment property portfolio (£79.4m):**

  Refer to page 28 (Audit Committee Report), page 37 (accounting policy) and pages 43 to 44 (financial disclosures).

  The risk — Investment property is the group's single largest asset category. Its valuation requires significant judgments and estimates, from both Directors and external valuers, particularly in relation to sensitivity of the valuation to assumptions regarding yield rates, void levels and comparable market transactions.

  Our response — In this area our audit procedures included using our own specialist real estate valuers to assist us in evaluating the assumptions used by the group. We have also reviewed the competence, capability and objectivity of the external valuers used by the Group. We compared the group's assumptions to externally derived data as well as our own assessments in relation to yield rates on a geographic as well as a property type basis. Further, we compared the sales price achieved on disposals during the year and after the balance sheet date to the carrying amounts of the disposed properties in the accounting records; and assessed the portfolio valuation as a whole for 'outliers' such as yields in excess of, and significantly below, the average for the portfolio and those properties resulting in the most significant valuation uplift or decrease, which we then investigated with the Directors and the external valuers by assessing specific qualitative factors relevant to each outlier. We also assessed the adequacy of the group's disclosures concerning the classification of investment properties held for sale.

- **Going concern**

  Refer to page 28 (Audit Committee Report) and page 37 (basis of preparation)

  The risk — During the current year the Group continued its operational strategy and disposed of a number of properties. The directors are pursuing a number of strategies including the disposal of the Company's remaining property portfolio. Assessing whether the going concern basis of preparation remains appropriate requires significant judgment due to these strategies in addition to the Company's financial ability to continue as going concern and it is important that the disclosure of the directors' judgments in this regard are appropriate.

  Our response — Our procedures in this area involved considering whether the continued preparation of the financial statements on a going concern basis was appropriate given the Directors strategy, and whether ceasing trading in the near future is the only realistic alternative for the Group. We have discussed with the directors the availability of other strategies, and assessed the viability of such strategies that remain open to the Group such as potential refinancing, recommencing a programme of property purchasing, or the disposal of the Group as a going concern. Our procedures were designed to assess the viability of these alternatives particularly around selling the business as a going concern. We have assessed whether the group's property portfolio is being actively marketed for sale as at the year end which would question the viability of the group continuing to trade. We critically assessed the cash flow forecasts prepared by the directors and the forecast level of cash and forecast headroom on debt covenants over the remaining life of the facilities to April 2018. We challenged the directors' assumptions included in the forecasts particularly around property disposals valuations, yield and void rates, and tenant default rates using sensitivity analysis over these assumptions and evaluating the past history of Directors' accurate assessment based on property disposals values. We also considered the adequacy of the group's disclosures in respect of the going concern assumption.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £900,000 determined with reference to a benchmark of total assets of which it represents 0.9%.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £45,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group, which comprised a single reporting component, was undertaken to the materiality level specified above and was all performed by the Group audit team at the Group's head office in London.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of Viability and Going Concern on pages 23 and 37, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the next three years to 2018; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 23 and 37, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 14 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Our Financials

Independent Auditors' Report

to the members of the Local Shopping REIT plc only

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Leech (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

16 December 2015

Consolidated Income Statement

for the year ended 30 September 2015

	Note	2015 £000	2014 £000
Gross rental income		**7,664**	13,851
Property operating expenses		**(1,960)**	(3,865)
Net rental income		**5,704**	9,986
(Loss)/profit on disposal of investment properties		**(7)**	475
Loss on disposal of subsidiaries		**–**	(1,312)
Loss from change in fair value of investment properties	7	**(1,638)**	(496)
Administrative expenses including non-recurring items	3	**(1,699)**	(2,152)
Net other income	4	**–**	5
Share of results from jointly controlled entities	8	**–**	(4)
Operating profit\(loss) before net financing costs		**2,360**	6,502
Financing income*	5	**18**	3
Financing expenses*	5	**(4,086)**	(7,566)
Movement in fair value of financial derivatives	5	**1,728**	2,267
Profit before tax		**20**	1,206
Taxation	6	**–**	–
Profit for the year		**20**	1,206
Profit for the financial year attributable to equity holders of the Company		**20**	1,206
Basic and diluted profit per share on profit for the year	16	**0.02p**	1.50p
Basic and diluted profit per share on continuing operations for the year	16	**0.02p**	1.50p

* Excluding movement in the fair value of financial derivatives.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2015

	2015 £000	2014 £000
Profit for the financial year	**20**	1,206
Total comprehensive income for the year	**20**	1,206
Attributable to:		
Equity holders of the parent Company	**20**	1,206

Our Financials

Consolidated Balance Sheet

as at 30 September 2015

	Note	2015 £000	2014 £000
Non-current assets			
Investment properties	7	**79,468**	86,201
Investments in jointly controlled entities	8	**–**	292
		79,468	86,493
Current assets			
Trade and other receivables	9	**2,028**	3,461
Investment properties held for sale	7	**2,387**	2,035
Cash	10	**12,740**	15,662
		17,155	21,158
Total assets		**96,623**	107,651
Non-current liabilities			
Interest bearing loans and borrowings	11	**(54,688)**	(63,642)
Finance lease liabilities	13	**(659)**	(672)
Derivative financial instruments	17	**–**	(1,634)
		(55,347)	(65,948)
Current liabilities			
Interest bearing loans and borrowings	11	**(1,001)**	(1,164)
Trade and other payables	12	**(3,129)**	(3,319)
Derivative financial instruments	17	**(2,294)**	(2,388)
		(6,424)	(6,871)
Total liabilities		**(61,771)**	(72,819)
Net assets		**34,852**	34,832
Equity			
Issued capital	14	**18,334**	18,334
Reserves	14	**3,773**	3,773
Capital redemption reserve	14	**1,764**	1,764
Retained earnings		**10,981**	10,961
Total attributable to equity holders of the Company		**34,852**	34,832

The financial statements were approved by the Board on 16 December 2015. They were signed on its behalf by:

Steven Faber
Director

The registered number of the Company is 05304743.

Consolidated Statement of Cash Flows

for the year ended 30 September 2015

	Note	2015 £000	2014 £000
Operating activities			
Profit for the year		**20**	1,206
Adjustments for:			
Loss from change in fair value of investment properties	7	**1,638**	496
Net financing costs	5	**2,340**	5,296
Loss/(profit) on disposal of investment properties		**7**	(475)
Loss on disposal of subsidiaries	2	**–**	1,312
Share of results of jointly controlled entities	8	**–**	4
		4,005	7,839
Increase/(decrease) in trade and other receivables		**1,419**	1,220
(Decrease)/increase in trade and other payables		**(147)**	(1,108)
		5,277	7,951
Interest paid		**(4,129)**	(8,026)
Loan arrangement fees paid		**(79)**	(143)
Interest received		**18**	3
Corporation tax paid		**–**	–
Net cash from operating activities		**1,087**	(215)
Investing activities			
Net proceeds from sale of investment properties		**5,143**	4,255
Cash transferred on disposal of subsidiaries		**–**	(1,350)
Proceeds from sale of subsidiaries		**–**	10,283
Acquisition and improvements to investment properties	7	**(407)**	(1,045)
Repayment of investment in jointly controlled entities	8	**292**	210
Cash flows from investing activities		**5,028**	12,353
Net cash flows from operating activities and investing activities		**6,115**	12,138
Financing activities			
Repayment of borrowings		**(9,037)**	(3,102)
Dividends paid	15	**–**	–
Cash flows from financing activities		**(9,037)**	(3,102)
Net (decrease)/increase in cash		**(2,922)**	9,036
Cash at beginning of year		**15,662**	6,626
Cash at end of year	10	**12,740**	15,662

Our Financials

Consolidated Statement of Changes in Equity

for the year ended 30 September 2015

	Share Capital £000	Reserves £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
Balance at 1 October 2013	18,334	3,773	1,764	9,755	33,626
Total comprehensive income for the year					
Profit for the year	–	–	–	1,206	1,206
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Balance at 30 September 2014	18,334	3,773	1,764	10,961	34,832
Total comprehensive income for the year					
Profit for the year	–	–	–	20	20
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Balance at 30 September 2015	**18,334**	**3,773**	**1,764**	**10,981**	**34,852**

Notes to the Financial Statements

for the year ended 30 September 2015

1. Accounting Policies

Basis of Preparation

The Local Shopping REIT plc ("the Company") is a company incorporated and domiciled in the UK. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted "IFRS") and in accordance with the provisions of the Companies Act 2006.

The financial statements are prepared in pounds sterling, rounded to the nearest thousand. They have been prepared under the historical cost convention except for the following assets which are measured on the basis of fair value: investment properties, derivative financial instruments, other investments and investment properties held for sale.

The directors have considered whether it is appropriate to prepare the financial statements on a going concern basis. During the preceding year the Group disposed of a number of properties. During the current year 37 properties were sold individually. The directors are pursuing a number of approaches for selling down the property portfolio and note that this may take several years to achieve, depending on market conditions. The directors review progress with the investment strategy on a regular basis. The directors note that a number of alternative strategies remain available to the Company, such as selling the Company as a going concern or continuing to trade as a going concern. They will continue to evaluate these, and will make recommendations to shareholders on alternative strategies if appropriate.

The directors have prepared profit and cash flow forecasts for the period to 30 September 2018 which include assumptions relating to the sale of properties under the current investment strategy which the directors consider to be reasonable. These forecasts project that the Group's and Company's funding needs will be comfortably met by the existing banking facility agreements without any breach of related covenants over the remaining life of the facilities which expire in April 2018. The directors have a reasonable expectation that the banking facilities can be renewed on comparable terms sufficient to continue to trade as a going concern after April 2018, if necessary.

On the basis of these projections the directors consider that the Group will continue to be compliant with its banking covenants and sufficient resources will be available to enable it to continue as a going concern for at least the next 12 months. The financial statements do not include the adjustments that would result from the going concern basis of preparation being inappropriate.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 30 September 2015. Subsidiaries are consolidated from the date on which the Group obtains control, being the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. They continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared using consistent accounting policies. Inter-company transactions and balances are eliminated.

Investment Property

Investment properties are those properties owned by the Group that are held to earn rental income or for capital appreciation or both and are not occupied by the Company or any of its subsidiaries.

The fair value of investment properties is based on market values being an estimated amount for which a property could be exchanged on the date of valuation under an arm's length transaction between a willing buyer and seller after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion. Professional external valuers have valued a sample selected by themselves of 25% of the existing portfolio at the half year and year end and all new purchases since the previous valuation to the half year and to the year end. The remainder of the portfolio has been valued on the basis of market value at the year end by the directors who have appropriate recognised professional qualifications and recent experience of the location and category of the property being valued.

Investment properties are treated as acquired at the point the Group assumes the significant risks and returns of ownership. Subsequent expenditure is charged to the asset's carrying value only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of each item can be reliably measured. All other repairs and maintenance costs are charged to the Income Statement during the period in which they are incurred.

Notes to the Financial Statements

1. Accounting Policies (continued)

Disposals of investment properties are recognised on completion; profits and losses arising are recognised through the Income Statement, the profit is determined as the difference between the sales proceeds and the carrying amount of the asset at the last valuation date plus any additional expenditure incurred since that date.

Interest on loans associated with acquiring investment properties is expensed on an effective interest rate basis.

Rental income from investment properties is accounted for as described below.

Investment Properties Held for Sale

Investment properties held for sale are included in the Balance Sheet at their fair value. In determining whether assets no longer meet the investment criteria of the Group, consideration has been given to the conditions required under IFRS 5.

An investment property shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable as at the year end.

Head Leases

Where a property is held under a head lease and is classified as an investment property, it is initially recognised as an asset based on the sum of the premium paid on acquisition and if the remaining life of the lease at the date of acquisition is considered to be material, the net present value of the minimum ground rent payments. The corresponding rent liability to the leaseholder is included in the Balance Sheet as a finance obligation in current and non-current liabilities.

The payment of head rent reduces the gross liability and the interest element of the finance lease is charged to the Income Statement. Head leases considered not to have a material life remaining at the date of acquisition are accounted for as operating leases with the head rent paid being expensed through the Income Statement.

Joint arrangements

The Group undertakes a business activity through a joint arrangement. Joint arrangements exist where two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's joint arrangement is a joint venture.

Joint Ventures

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. A separate vehicle, not the parties, will have rights to the assets and obligations to the liabilities, relating to the arrangement.

Joint ventures are accounted for using the equity method. Under the equity method, the interests in the joint venture are carried in the Balance Sheet at cost plus post-acquisition changes in the Group's share of their net assets, less distributions received and less any impairment in value of the individual investment. The Income statement reflects the Group's share of the joint venture's results after interest and tax.

During the year, the joint venture commenced the process of members' voluntary liquidation.

Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment. Impairment is made where it is established that there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The impairment is recorded in the Income Statement.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and deposits held on call. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

1. Accounting Policies (continued)

Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments such as interest rate swaps to economically hedge risks associated with interest rate fluctuations. The Group does not hold or issue derivatives for trading purposes.

Such instruments are initially measured at fair value on the date on which a contract is entered into and are subsequently re-measured at fair value. Financial derivatives are recognised as current and non-current based on the maturity profile of the associated cash flows.

The Group has determined that the derivative financial instruments held did not qualify as effective for hedge accounting under the criteria set out in IAS 39 and consequently any gains or losses arising from changes in their fair value are taken to the Income Statement. In the future and on an ongoing basis as new derivative financial instruments are entered into, the directors will review the derivative contracts to consider whether they qualify for hedge accounting.

Financial Assets

Financial assets are impaired when there is objective evidence that the cash flows from the financial asset are reduced.

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently held at amortised cost less impairment.

Ordinary Share Capital

External costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Shares which have been repurchased are classified as treasury shares and shown in retained earnings. They are recognised at the trade date for the amount of consideration paid, together with directly attributable costs. This is presented as a deduction from total equity. Shares held by the Employee Benefit Trust are treated as being those of the Group until such time as they are distributed to employees, when they will be expensed in the profit and loss account.

The nominal value of shares cancelled has been taken to a capital redemption reserve.

Rental Income

Rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease. When the Group provides lease incentives to its tenants the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction to income.

Other Income

Other income comprises administration fees charged on lease renewals.

Taxation

Corporation tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

As a REIT, the Group will be exempt from corporation tax on the profits and gains from its property investment business, 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. Therefore, current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. The REIT entry charge is expensed on the date of entry to the REIT regime. Deferred tax is provided using the balance sheet liability method. Provision is made for temporary differences between the carrying amounts of assets and liabilities in the financial statements for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is calculated after taking into account any indexation allowances and capital losses on an undiscounted basis. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right of set-off.

Our Financials

Notes to the Financial Statements

1. Accounting Policies (continued)

Pensions

The Company has no pension arrangements in operation.

Share-based Payments

There were no share-based payment arrangements during the period.

Employee Benefit Trust

The Group operates an Employee Benefit Trust in order to hedge its obligations under the CSOP and LTIP schemes. The Group either purchases its own shares directly or it funds the trust to acquire shares in the Company. Transactions of the Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Group financial statements.

Use of Estimates and Judgements

To be able to prepare accounts according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board of directors believe are reasonable under the circumstances. The results of these considerations form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

The areas requiring the use of estimates and judgements that may significantly impact the Group's earnings and financial position include the estimation of: the fair value of investment properties, derivative financial instruments and trade receivables.

The valuation of the Group's investment properties is the main area of judgement exercised by the Board in respect of the Group's results. The Board obtains an external valuation of the portfolio carried out by professionally qualified valuers in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors in respect of all properties purchased during each financial year and a further 25% of the portfolio at the half year and year end as selected by the valuers. The valuers were acting as independent valuers and have good information and experience of the current market prices for properties similar to those owned by the Group. Their opinion of Market Value was primarily derived using comparable recent market transactions on an arm's length basis. The tone of their valuation has been adopted by the directors to value the remainder of the portfolio. The assumptions underlying the valuation of the commercial properties within the portfolio include: future rental income, an appropriate discount rate, any planned capital expenditure and the strength of the local letting market in relation to the Market Rent of any letting voids. In addition to these assumptions, in respect of the residential element of the portfolio, a discount of 85% is typically applied to reflect vacant possession.

The valuation of derivative financial instruments and the fixed rate loan are also areas where judgement has been exercised by the Board. These assets and liabilities have been valued by the Group's bankers. These valuations have been relied upon by the Board.

The Group is required to assess whether there is sufficient objective evidence to require the impairment of individual trade receivables. It does this through a regular review of arrears with consideration given to any specific circumstances relating to the receivable.

1. Accounting Policies (continued)

Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reported to the chief operating decision maker to allocate resources to the segments and to assess their performance.

Since the strategy review in July 2013 the Group has identified one operation and one reporting segment which is reported to the Board of directors on a quarterly basis. The Board of directors is considered to be the chief operating decision maker.

New Standards and Interpretations Not Yet Adopted

As at September 2015, the following standards and interpretations or amendment there to, which have not been applied in these financial statements, were in issue but not yet effective. The effect of their adoption on the financial statements in future periods has not yet been ascertained.

	Applicable for the year commencing on or after:
Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)	1 January 2016
Amendments to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 27 (Equity Method in Separate Financial Statements) — not yet endorsed	1 January 2016
Amendments to IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture) — not yet endorsed	1 January 2016
Annual Improvements to IFRSs – 2012-2014 Cycle — not yet endorsed	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 (Investment entities: Applying the Consolidation Exception) — not yet endorsed	1 January 2016
Amendments to IAS 1 (Disclosure initiative) — not yet endorsed	1 January 2016
IFRS 9 Financial Instruments — not yet endorsed	1 January 2018
IFRS 15 Revenue from Contracts with Customers — not yet endorsed	1 January 2018

2. Disposal of subsidiary companies

During the preceding year the company disposed of two subsidiaries, NOS 2 Limited and NOS 3 Limited, by the sale of their entire share capital.

The loss on sale was calculated as follows:

	£000	**£000**
Sale proceeds		**11,100**
Deduct:		
Assets of the subsidiaries		
Properties	78,199	
Debtors and prepayments	104	
Cash	1,350	
	79,653	
Liabilities of the subsidiaries		
Creditors and accruals	(1,319)	
Bank loans	(66,739)	
	(68,058)	
Net assets of subsidiaries	11,595	
Fees and other costs	817	
		12,412
Net loss		**(1,312)**

Our Financials

Notes to the Financial Statements

3. Administrative Expenses

a) The following fees have been paid to the Group's Auditors:

	2015 £000	2014 £000
Auditors' remuneration for audit services:		
Audit of parent Company	**33**	37
Audit related assurance services	**16**	19
Statutory audit of subsidiaries	**37**	43
Auditors' remuneration for non-audit services:		
Tax services	**27**	27
Other services supplied	**7**	15

The other services supplied related to the disposal under project Minard of NOS 2 Limited and NOS 3 Limited in 2014 and in 2015 relate to professional advice received in connection with a transaction which did not proceed.

b) Included in administrative expenses is directors' remuneration as disclosed in the Remuneration Report. The company has no other paid employees.

Directors' emoluments are disclosed separately in the Remuneration Report.

c) Share Awards

There were no material share-based payment arrangements during the period.

d) Non-recurring items

IAS 1 (Revised) – "Presentation of financial statements" requires material items of income and expenditure to be disclosed separately. The amounts are items which, in management's opinion, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information. These amounts are considered to be £nil (2014: £nil).

4. Net Other Income

	2015 £000	2014 £000
Other income	**–**	5
Other expenses	**–**	–
	–	5

5. Net Financing Costs

	2015 £000	2014 £000
Interest receivable	**18**	3
Interest receivable excluding fair value movements	**18**	3
Fair value gains on derivative financial instruments (note 18)	**1,728**	2,267
Financing income	**1,746**	2,270
Bank loan interest	**(3,937)**	(7,366)
Amortisation of loan arrangement fees	**(100)**	(146)
Head rents treated as finance leases	**(49)**	(54)
Financing expenses excluding fair value movements	**(4,086)**	(7,566)
Fair value losses on derivative financial instruments (note 18)	**–**	–
Financing expenses	**(4,086)**	(7,566)
Net financing costs	**(2,340)**	(5,296)

6. Taxation

	2015 £000	2014 £000
Profit/(loss) before tax	20	1,206
Corporation tax in the UK of 20.5% (2014: 22%)	4	265
Tax relief available from REIT status	(464)	(1,387)
Effects of:		
Revaluation deficit and other non-deductible items	445	391
Deferred tax asset not recognised	14	731

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset at 30 September (which has been calculated based on the rate of 20% substantively enacted at the balance sheet date) by £0.23m. From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group will be exempt from corporation tax on the profits and gains from its property 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.

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 sufficient profits from the residual business will be generated in the foreseeable future to utilise the losses carried forward as the current year losses will be adequate to cover foreseeable profits. The non-provided deferred tax asset at 30 September 2015 was £2.35m (2014: £3.22m). Amounts estimated at £0.1m included in tax relief available for REIT status may become subject to Corporation Tax under s543 CTA 2010 if relief is not granted. In this event, the Company's future tax charge is likely to increase by up to £0.1m.

7. Investment Properties

	Freehold Investment Properties £000	Leasehold Investment Properties £000	Total £000
At 30 September 2013	134,789	31,318	166,107
Additions	51	994	1,045
Disposals	(68,217)	(13,878)	(82,095)
Fair value adjustments	653	(1,149)	(496)
Investment properties held for sale	1,487	153	1,640
At 30 September 2014	68,763	17,438	86,201
Additions	376	31	407
Disposals	(4,267)	(883)	(5,150)
Fair value adjustments	(819)	(819)	(1,638)
Investment properties held for sale	(428)	76	(352)
At 30 September 2015	**63,625**	**15,843**	**79,468**

The investment properties have all been revalued to their fair value at 30 September 2015.

At the half year and year end, all properties acquired in those six months, together with a sample selected by the valuers of 25% of the portfolio, at the half year and at the year end have been valued by Allsop LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Our Financials

Notes to the Financial Statements

7. Investment Properties (continued)

The disposals balance at 30 September 2014 includes properties at carrying value of £78.2m that were disposed of as part of the NOS 2 and NOS 3 transaction.

The remainder of the portfolio has been valued on the basis of market value by the directors who have an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

All rental income recognised in the Income Statement is generated by the investment properties held and all direct operating expenses incurred resulted from investment properties that generated rental income.

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

	2015 £000	2014 £000
Portfolio valuation	81,196	87,564
Investment properties held for sale	(2,387)	(2,035)
Head leases treated as investment properties held under finance leases per IAS 17	659	672
Total per Balance Sheet	79,468	86,201

8. Investments in Joint Venture

The Group has the following investment in a joint venture:

On 28 September 2011 an agreement was entered into with Gracechurch Commercial Investments Limited ("Gracechurch"), a newly incorporated entity. The initial investment made was £500,000. The principal activity of the entity was to manage properties for investment purposes. During the 2014 year the entire portfolio of Gracechurch was disposed of, and Gracechurch went into voluntary liquidation. During the current year this liquidation was finalised.

The summarised financial information in respect of the Group's share of the jointly controlled entities is shown below.

	Gracechurch £000
At 30 September 2013	507
Share of results, net of tax	(4)
Distributions received	(210)
At 30 September 2014	293
Distributions received	(293)
At 30 September 2015	**Nil**

Year ended 30 September 2014

	Gracechurch £000
Current assets	317
Current liabilities	(24)
	293
Represented by:	
Capital	500
Brought forward share of results	(203)
Share of results, net of tax	(4)
Group's share of net assets	293

9. Trade and Other Receivables

	2015 £000	2014 £000
Trade receivables	746	1,100
Other receivables	171	1,640
Prepayments	1,111	721
	2,028	3,461

10. Cash

	2015 £000	2014 £000
Cash in the Statement of Cash Flows	12,740	15,662

Included in bank balances are amounts held pending the next interest payment due in October 2015. Until the interest payment has been deducted from these balances the cash is not available for use by the Group. At the year end the amount held on such account was £1,289,294 (2014: £1,240,306) with accruals for interest due of £633,355 (2014: £676,647).

11. Interest Bearing Loans and Borrowings

	2015 £000	2014 £000
Non-current liabilities		
Secured bank loans	54,987	63,961
Loan arrangement fees	(299)	(319)
	54,688	63,642
Current liabilities		
Current portion of secured bank loans	1,001	1,164

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.

For more information about the Group's exposure to interest rate risk, see note 18.

12. Trade and Other Payables

	2015 £000	2014 £000
Trade payables	521	399
Other taxation and social security	225	5
Other payables	613	967
Accruals and deferred income	1,770	1,948
	3,129	3,319

Other payables include rent deposits held in respect of commercial tenants of £430,000 (2014: £469,000).

Our Financials

Notes to the Financial Statements

13. Leasing

Obligations Under Finance leases

Finance lease liabilities on head rents are payable as follows:

	Minimum Lease Payment £000	Interest £000	Principal £000
At 30 September 2013	6,809	(5,887)	922
(Payments)/charge	(54)	54	–
Disposals	(2,028)	1,778	(250)
At 30 September 2014	4,727	(4,055)	672
Disposals	(80)	67	(13)
(Payments)/charge	(48)	48	–
At 30 September 2015	**4,599**	**(3,940)**	**659**

In the above table, interest represents the difference between the carrying amount and the contractual liability/cash flow.

All leases expire in more than five years.

14. Capital and Reserves

Share Capital

	2015		2014	
	Ordinary 20p Shares		Ordinary 20p Shares	
	Number 000	**Amount £000**	Number 000	Amount £000
Allotted, called up and fully paid	**91,670**	**18,334**	91,670	18,334

Investment in Own Shares

At the year end, 9,164,017 shares were held in treasury (2014: 9,164,017).

The number of shares held by the Company's Employee Benefit Trust, LSR Trustee Limited, at the year end was 1,096,545 (2014: 1,096,545). During the year the EBT transferred no shares (2014: Nil) to employees on the vesting of awards under the Long Term Incentive Plan. During the year the EBT transferred no shares to employees on the exercise of awards under the Company's Share Option Scheme.

Reserves

The value of shares issued to purchase Gilfin Property Holdings Limited in excess of their nominal value has been shown as a separate reserve in accordance with the Companies Act 2006.

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 8,822,920 Ordinary 20p Shares.

14. Capital and Reserves (continued)

Calculation of Net Asset Value Per Share (NAV)

	2015 £000	2014 £000
Net assets	**34,852**	34,832
Fair value of derivative financial instruments (see note 18)	**2,294**	4,022
Adjusted net assets	**37,146**	38,854

	2015 Number 000	2014 Number 000
Allotted, called up and fully paid shares	**91,670**	91,670
Treasury shares	**(9,164)**	(9,164)
Number of shares	**82,506**	82,506
NAV per share	**42p**	42p
Adjusted NAV per share	**45p**	47p

15. Dividends

No dividends were paid during the current and previous year.

16. 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/(Loss) Attributable to Ordinary Shares

	2015 £000	2014 £000
Profit for the year	**20**	1,206
Profit for the year from discontinued operations	**–**	–
Profit on continuing operations for the year	**20**	1,206

Weighted Average Number of Ordinary Shares

	2015 Number 000	2014 Number 000
Issued Ordinary Shares at 1 October 2014	**91,670**	91,670
Shares held by EBT	**(1,097)**	(1,097)
Treasury shares	**(9,164)**	(9,164)
Weighted average number of Ordinary Shares at 30 September 2015	**81,409**	81,409

Diluted Earnings Per Share

There is no difference between basic and diluted earnings per share in the prior year and no difference in the current year.

Our Financials

Notes to the Financial Statements

17. Derivative Financial Instruments

Derivative financial instruments held by the Group are interest rate swaps used to manage the Group's interest rate exposure. These are shown in the Balance Sheet as follows:

	Fair Value 2013 £000	Movements in Income Statement £000	Fair Value 2014 £000	Movements in Income Statement £000	Fair Value 2015 £000
Non-current liabilities	(3,872)	2,238	(1,634)	1634	–
Current liabilities	(2,417)	29	(2,388)	94	(2,294)
Fair value	(6,289)	2,267	(4,022)	1,728	(2,294)

At 30 September 2015 and 30 September 2014 these derivative financial instruments did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

A summary of the swaps and their maturity dates are as follows:

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Fair Value 2014 £000	Movements in Income Statement £000	Fair Value 2015 £000
20,178	16/07/2007	31/01/2017	4.85	(1,658)	571	(1,087)
22,500	30/04/2013	20/07/2016	5.05	(1,612)	789	(823)
10,500	30/04/2013	29/07/2016	5.05	(752)	368	(384)
				(4,022)	1,728	(2,294)

The interest rate receivable on each swap is LIBOR. The notional value of the £20,178,000 swap amortises at a rate of £200,000 per quarter. Prior to the year end it was agreed that this swap would be terminated on 30 October 2015, and accordingly has been treated as a current liability.

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

More details of the Group's policy regarding the management of interest rate risk are given in note 18.

18. Financial Instruments and Risk Management

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

As described in the Corporate Governance report, this responsibility has been assigned to the executive directors with support and feedback from the Audit Committee. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group has identified exposure to the following financial risks from its use of financial instruments: capital management risk, market risk, credit risk and liquidity risk.

Capital Management Risk

The Group's capital consists of long-term borrowings, cash and equity attributable to the shareholders. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board regularly reviews the Group's capital structure, cost of capital, gearing levels and other specific measures. From time to time, the Company purchases its own shares when the Board considers that this course of action would enhance the value of the Group for shareholders. The Group has had a policy of paying 100% of recurring profits as a dividend each year. Following the restructuring in July 2013 dividend policy will be reviewed half-yearly by the Board. No dividend has been paid during the year. There were no other changes in the Group's approach to capital management during the year.

18. Financial Instruments and Risk Management (continued)

Market Risk

Market risk is the risk that changes in market conditions, such as interest rates, foreign exchange rates and equity prices, will affect the Group's profit or loss and cash flows. The Group's exposure to market risks is restricted to interest rate risk only. The Group borrows at floating rates of interest and uses financial instruments to fix the floating rates of interest in accordance with its policy.

The Group and its jointly controlled entities do not speculate in financial instruments. They are only used to limit their exposure to interest rate fluctuations. The Group's policy is to hedge between 60% and 100% of its interest rate exposure. At 30 September 2015, 95% (2014: 83%) of the Group's debt was fixed or protected, as shown below.

	At 30 September 2015			At 30 September 2014		
	Interest bearing loans £000	Notional value of swaps £000	Loans not protected by swaps £000	Interest bearing loans £000	Notional value of swaps £000	Loans not protected by swaps £000
Variable rate loan	**55,988**	**53,178**	**2,810**	65,125	53,979	11,146
	55,988	**53,178**	**2,810**	65,125	53,979	11,146

The variable rate loan is protected by interest rate swaps which are carried at fair value. These have been identified as Level 2 in the fair value hierarchy. Level 2 is defined as inputs other than quoted prices included within Level 1 that are observable for the liability either directly (i.e. as prices) or indirectly (as derived from prices).

Sensitivity Analysis

IFRS 7 requires an illustration of the impact on the Group's financial performance of changes in interest rates. The following sensitivity analysis has been prepared in accordance with the Group's existing accounting policies and considers the impact on the Income Statement and on equity of an increase of 100 basis points (1%) in interest rates. As interest rates were below 1% in the current and previous year, it has not been possible to consider the impact of a decrease of 100 basis points on interest income and expense as it would result in a negative rate of interest. Therefore, the impact of a fall in interest rates has been restricted to 0%. It has been possible to consider the impact of a 1% change in rates on the fair value of derivatives as the contracted rates are greater than 1%. All other variables remain the same and any consequential tax impact is excluded. The analysis assumes that changes in market interest rates affect the interest income and interest expense of derivative financial instruments. Changes in the fair value of derivative financial instruments have been estimated by discounting future cash flows at appropriate market rates prevailing at each year end.

Actual results in the future may differ materially from these assumptions and as such, these tables should not be considered as a projection of likely future gains and losses.

	2015				2014			
	Impact on income		Impact on equity		Impact on income		Impact on equity	
	Number + £000	Amount - £000	Number + £000	Amount - £000	Number + £000	Amount - £000	Number + £000	Amount - £000
Impact on Interest income and expense	**169**	**13**	**169**	**13**	63	111	63	111
Impact on fair value of derivatives	**627**	**363**	**627**	**363**	1,075	608	1,075	608

Credit Risk

Credit risk is the risk of financial loss to the Group if a tenant, bank or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from tenants, cash and cash equivalents held by the Group's banks and derivative financial instruments entered into with the Group's banks.

Our Financials

Notes to the Financial Statements

18. Financial Instruments and Risk Management (continued)

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The Group has over 1,000 tenants in over 300 properties. There is no significant concentration of credit risk due to the large number of small balances owed by a wide range of tenants who operate across all retail sectors. Geographically there is no concentration of credit risk in any one area of the UK. An analysis of the business by region, user type and tenant grade is given on pages 2-3. The level of arrears is monitored monthly by the Group and more frequently on a tenant by tenant basis by the asset managers.

Cash, Cash Equivalents and Derivative Financial Instruments

Two major UK banks provide the majority of the banking services used by the Group. Financial derivatives are only entered into with these core banks.

The Group's financial assets which are exposed to credit risk are classified as follows and are shown with their fair value:

30 September 2015

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Investments in joint ventures	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**–**	**12,740**	**–**	**12,740**	**12,740**
Trade receivables	**–**	**–**	**746**	**746**	**746**
Other receivables	**–**	**–**	**171**	**171**	**171**
	–	**12,740**	**917**	**13,657**	**13,657**

30 September 2014

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Investments in joint ventures	–	–	293	293	293
Cash and cash equivalents	–	15,662	–	15,662	15,662
Trade receivables	–	–	1,100	1,100	1,100
Other receivables	–	–	1,640	1,640	1,640
	–	15,662	3,033	18,695	18,695

For all classes of financial assets, the carrying amount is a reasonable approximation of fair value.

The ageing of trade receivables is as follows:

	2015			2014		
	Total £000	**Impairment £000**	**After Impairment £000**	Total £000	Impairment £000	After Impairment £000
Not yet due	**175**	**–**	**175**	311	–	311
Past due by one to 30 days	**327**	**(3)**	**324**	368	(2)	366
Past due by 30–60 days	**87**	**(6)**	**81**	220	(5)	215
Past due by 60–90 days	**27**	**(12)**	**15**	32	(8)	24
Past due by 90 days	**430**	**(279)**	**151**	358	(174)	184
	1,046	**(300)**	**746**	1,289	(189)	1,100

Trade receivables that are not impaired are expected to be recovered.

Other receivables at 30 September 2015 and 30 September 2014 were not past due.

18. Financial Instruments and Risk Management (continued)

The movement in the trade receivables' impairment allowance during the year was as follows:

	2015 £000	2014 £000
Balance at beginning of year	189	264
Impairment loss recognised	134	617
Trade receivables written off	(23)	(692)
Balance at end of year	300	189

The impairment loss recognised relates to the movement in the Group's assessment of the recoverability of outstanding trade receivables.

The movement in the trade receivables impairment allowance in relation to NOS 2 and NOS 3 (disposed of during the preceding year) is a net write-off of £178k.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have adequate resources to meet its liabilities when they fall due for both the operational needs of the business and to meet planned future investments. This position is formally reviewed on a quarterly basis or more frequently should events require it.

The Group's financial liabilities are classified and are shown with their fair value as follows:

30 September 2015

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	55,689	55,689	55,689
Finance lease liabilities	–	659	659	659
Derivative financial instruments	2,294	–	2,294	2,294
Trade payables	–	521	521	521
Other payables	–	540	540	540
Accruals	–	918	918	918
	2,294	58,327	60,621	60,621

30 September 2014

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	64,806	64,806	64,806
Finance lease liabilities	–	672	672	672
Derivative financial instruments	4,022	–	4,022	4,022
Trade payables	–	399	399	399
Other payables	–	830	830	830
Accruals	–	936	936	936
	4,022	67,643	71,665	71,665

For all classes of financial liabilities, other than the fixed rate loan, the carrying amount is a reasonable approximation of fair value.

The fair value of the fixed rate element of the interest bearing loan disclosed above has been valued by the Group's bankers.

Our Financials

Notes to the Financial Statements

18. Financial Instruments and Risk Management (continued)

The maturity profiles of the Group's financial liabilities are as follows:

30 September 2015

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	55,689	59,444	2,429	2,542	54,473	–	–	–
Finance lease liabilities	659	4,727	48	48	48	48	48	4,487
Derivative financial instruments	2,294	2,718	2,321	397	–	–	–	–
Trade payables	521	521	521	–	–	–	–	–
Other payables	540	540	540	–	–	–	–	–
Accruals	918	918	918	–	–	–	–	–
	60,621	68,868	6,777	2,987	54,521	48	48	4,487

30 September 2014

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	64,806	72,292	2,794	2,749	2,696	64,053	–	–
Finance lease liabilities	672	4,732	47	47	47	47	47	4,497
Derivative financial instruments	4,022	4,575	2,388	1,982	205	–	–	–
Trade payables	399	399	399	–	–	–	–	–
Other payables	830	830	830	–	–	–	–	–
Accruals	936	936	936	–	–	–	–	–
	71,665	83,764	7,394	4,778	2,948	64,100	47	4,497

Contractual cash flows include the undiscounted committed interest cash flows and, where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the year end.

19. Operating Lease Arrangements

a) Leases as Lessee

The company has no leases where it is a lessee.

b) Leases as Lessor

The investment properties are let under operating leases. Future minimum lease payments receivable by the Group under non-cancellable operating leases are receivable as follows:

	2015 £000	2014 £000
Less than one year	1,907	2,169
Between one and five years	2,519	2,520
More than five years	3,126	3,226
	7,552	7,915

20. Capital Commitments

At 30 September 2015 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £24,000 (2014: £78,000).

21. Related Parties

Transactions with Key Management Personnel

The only transactions with key management personnel relate to remuneration which is set out in the Remuneration Report.

The key management personnel of the Group for the purposes of related party disclosures under IAS 24 comprise all executive and non-executive directors.

See also note 23: Significant Contracts.

22. Group Entities

	Country of Incorporation	Ownership Interest 2015	2014
NOS Limited – in members' voluntary liquidation	United Kingdom	**100%**	100%
NOS 4 Limited	United Kingdom	**100%**	100%
NOS 5 Limited	United Kingdom	**100%**	100%
NOS 6 Limited	United Kingdom	**100%**	100%
Palladium Investments Limited	United Kingdom	**100%**	100%
NOS 8 Limited – in members' voluntary liquidation	United Kingdom	**100%**	100%
Gilfin Property Holdings Limited	United Kingdom	**100%**	100%
LSR Asset Management Limited – in members' voluntary liquidation	United Kingdom	**100%**	100%
NOS Residential Limited – in members' voluntary liquidation	United Kingdom	**100%**	100%
LSR Gresham Asset Advisers Limited – in members' voluntary liquidation	United Kingdom	**100%**	100%
LSR Gresham Investments Limited – in members' voluntary liquidation	United Kingdom	**100%**	100%
Joint entities			
Gracechurch Commercial Investments Limited – Liquidated during the year	United Kingdom	**50%**	50%

On 7 August 2014 LSR plc disposed of its shareholdings in NOS 2 and NOS 3. Management have considered the criteria of IFRS 5 and have concluded that they are not applicable to this transaction.

23. 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:

- 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.
- An annual performance fee of 20% of the recurring operating profits above a pre-agreed target recurring profit.
- Fees for property sales as follows:

Up to £50m	nil
£50m–£150m	0.5% of sales
Over £150m	1.5% of sales

- A terminal fee of 5.7% of cash returned to the Company's shareholders in excess of 36.1 pence per share 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 fees of £1,016,461 (2014:£1,318,539) during the year.

Our Financials

Company Balance Sheet

as at 30 September 2015

	Note	2015 £000	2015 £000	2014 £000	2014 £000
Fixed assets					
Investments	C5		29,754		70,418
			29,754		70,418
Current assets					
Debtors	C6	149		2,460	
Cash		7,475		10,108	
		7,624		12,568	
Creditors: Amounts falling due within one year	C7	(582)		(46,261)	
Net current assets/(liabilities)			7,042		(33,693)
Total assets less current liabilities			36,796		36,725
Creditors: Amounts falling due after one year			–		–
Net assets			36,796		36,725
Capital and reserves					
Share capital	C8		18,334		18,334
Reserves	C8		3,742		3,742
Capital redemption reserve	C8		1,764		1,764
Profit and loss account	C8		12,956		12,885
Shareholders' funds			36,796		36,725

These financial statements were approved by the Board of Directors on 16 December 2015 and were signed on its behalf by:

Steven Faber
Director

The registered number of the Company is 05304743.

Notes to the Company Financial Statements

C1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with applicable UK Accounting Standards and under the historical cost accounting rules.

Cash Flow Statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

Related Party Transactions

The Company has taken advantage of the exemption in FRS 8 – Related Party Transactions and has not disclosed transactions or balances with entities which form part of the Group as these consolidated financial statements include the results of these entities.

Financial Instruments

The Company has adopted the requirements of FRS 29 – Financial Instruments Disclosures and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS 7.

Investments

Investments in subsidiary undertakings are stated at historic cost less provisions for impairment.

Tangible Fixed Assets

Following the termination of the Company's office lease in 2013, all tangible assets were written off in that year.

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen, but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Pensions

The Company has no pension scheme in operation.

Share-Based Payments

There were no material share-based payment arrangements during the period.

Employee Benefit Trust

The Company operates an Employee Benefit Trust in order to hedge its obligations under the CSOP and LTIP schemes. The Company either purchases its own shares directly or it funds the trust to acquire shares in the Company. Transactions of the Employee Benefit Trust are treated as being those of the Company and are reflected in the Company's financial statements.

Ordinary Share Capital

External costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Shares which have been repurchased are classified as treasury shares and shown in retained earnings. They are recognised at the trade date for the amount of consideration paid, together with directly attributable costs. This is presented as a deduction from total equity. Shares held by the Employee Benefit Trust are treated as being those of the Company.

Profit for the Financial Year

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's profit for the year was £71,000 (2014: loss (£3,016,000)).

Our Financials

Notes to the Company Financial Statements

C2. Remuneration of Directors

The detailed information concerning directors' emoluments, shareholdings and share options is shown in the Remuneration Report.

All directors of the Company are directors of the Group.

C3. Remuneration of Auditors

The detailed information concerning Auditors' remuneration is shown in note 3 to the Group financial statements.

C4. Staff Numbers, Costs and Share Option Schemes

The detailed information concerning staff numbers, costs and share option schemes is shown in note 3 to the Group financial statements.

C5. Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 30 September 2014	108,605	108,605
Disposals	–	–
At 30 September 2015	**108,605**	**108,605**
Provisions		
At 30 September 2014	38,187	38,187
Impairment charge for year	40,664	40,664
Disposals	–	–
At 30 September 2015	**78,851**	**78,851**
Net book value		
At 30 September 2015	**29,754**	**29,754**
At 30 September 2014	70,418	70,418

An impairment review of the carrying value of the Company's investments in its subsidiary undertakings has been performed. In carrying out this review, the directors had due regard to the nature of the property investments held, which is commensurate with the funding arrangements in place. On the basis of this review which included a review of the underlying assets of the individual subsidiaries the directors have written down the value of investments in subsidiary undertakings to their estimated realisable value.

The companies in which the Company's interests at the year end were more than 20% are as follows:

	Nature of business	Ownership Interest*
NOS Limited – in members' voluntary liquidation	Dormant	100%
NOS 4 Limited	Property Investment	100%
NOS 5 Limited	Property Investment	100%
NOS 6 Limited	Property Investment	100%
Palladium Investments Limited	Property Investment	100%
NOS 8 Limited – in members' voluntary liquidation	Property Investment	100%
Gilfin Property Holdings Limited	Property Investment	100%
LSR Asset Management Limited – in members' voluntary liquidation	Property Management	100%
NOS Residential Limited – in members' voluntary liquidation	Property Investment	100%
LSR Gresham Asset Advisers Limited – in members' voluntary liquidation	Property Management	100%
LSR Gresham Investments Limited – in members' voluntary liquidation	Property Investment	100%

* All interests are in Ordinary Shares.

All of the above companies are incorporated in Great Britain.

C6. Debtors

	2015 £000	2014 £000
Amounts owed by Group undertakings	–	801
Other debtors	105	1,369
Other taxation and social security	2	274
Prepayments	42	16
	149	2,460

C7. Creditors

	2015 £000	2014 £000
Trade creditors	305	227
Amounts owed to Group undertakings	–	45,663
Other taxation and social security	3	5
Other creditors	4	132
Accruals	270	234
	582	46,261

C8. Reconciliation of Shareholders' Funds

Share Capital

	2015 Ordinary 20p Shares		2014 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Allotted, called up and fully paid	91,670	18,334	91,670	18,334

Reserves

	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 1 October 2013	3,742	1,764	15,901	21,407
Loss for the financial year	–	–	(3,016)	(3,016)
At 30 September 2014	3,742	1,764	12,885	18,391
Profit for the financial year	–	–	71	71
At 30 September 2015	**3,742**	**1,764**	**12,956**	**18,462**

Investment in Own Shares

At 30 September 2015, 9,164,017 shares were held in treasury (2014: 9,164,017).

Reserves

The value of shares issued to purchase Gilfin Property Holdings Limited in excess of their nominal value has been shown as a separate reserve in accordance with the Companies Act 2006.

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 8,822,920 Ordinary 20p Shares.

Dividends

No dividends were paid during the current and previous year.

Our Financials

Notes to the Financial Statements

C9. Disposal of shares in subsidiaries

During the preceding year the Company disposed of two subsidiaries, NOS 2 Limited and NOS 3 Limited, by the sale of their entire share capital.

The profit on sale included in the profit and loss account was calculated as follows:

	£000
Sale proceeds	11,100
Deduct:	
Carrying cost of investments	11,584
Less:	
Assets not disposed of	(1,369)
Fees and other costs	817
	11,032
Profit	68

The difference between the profit/(loss) on disposal in the Company accounts and the consolidated accounts is due to differences between the net assets of NOS 2 and NOS 3 at the date of disposal and the carrying costs of the investments in The Local Shopping REIT plc.

Supplementary Information

Glossary

Adjusted Net Asset Value ("Adjusted NAV") per share
Adjusted NAV is calculated as shareholders' funds, adjusted by the fair value of the derivative financial instruments held on the Balance Sheet, divided by the number of shares in issue at the year end, excluding treasury shares.

Earnings Per Share ("EPS")
EPS is calculated as profit attributable to shareholders divided by the weighted average number of shares in issue in the year.

Equivalent Yield
Equivalent yield is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the Group's external valuers) assume rent received annually in arrears and on gross values including prospective purchasers' costs (including stamp duty, and agents' and legal fees).

Head Lease
A head lease is a lease under which the Group holds an investment property.

Initial Yield
Initial yield is the annualised net rent generated by a property expressed as a percentage of the property valuation. In accordance with usual practice the property value is grossed up to include prospective purchasers' costs.

Interest Cover
Interest cover can be calculated in a number of ways. The Group interest cover given in the Finance Review is based on the percentage of times gross rental income covers financing expenses.

The interest cover ratios given in the Finance Review are calculated as defined in the loan facility agreements. Each bank loan has a charge on a specific pool of property and the ICRs are calculated based on the gross rental income, less an adjustment for unrecoverable costs compared to the interest charged on that loan for that particular pool of assets.

Interest Rate Swap
An interest rate swap is a financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are used by the Group to convert floating rate debt to fixed rates.

Initial Public Offering ("IPO")
An IPO is the first sale of shares by a privately owned company on a Stock Exchange. LSR issued its shares for sale on 2 May 2007.

London Interbank Offered Rate ("LIBOR")
LIBOR is the interest rate charged by one bank to another bank for lending money.

Loan-to-value ("LTV")
Loan-to-value is the ratio of debt, excluding any mark-to-market adjustments, to the value of investment properties.

Market Value
Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Market Rent
Market rent is the estimated amount for which a property should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms, in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Net Asset Value ("NAV") per share
NAV per share is calculated as shareholders' funds divided by the number of shares in issue at the year end excluding treasury shares.

Real Estate Investment Trust ("REIT")
A REIT is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK property rental income and gains on investment property disposals from corporation tax. LSR converted to REIT status on 11 May 2007.

Recurring Profit
Recurring profit is calculated by adjusting the statutory IFRS reported result for: the movement in the fair value of the property portfolio; the movement in the fair value of financial derivatives held; any profit or loss realised on the sale of properties or other fixed assets; and other one-off, non-recurring income or costs incurred which are not considered to be sustainable or of a recurring nature.

Rent Roll
Rent roll is the total contractual annualised rent receivable from the portfolio net of any head rent payments.

Reversionary Yield
Reversionary yield is the annualised net rent that would be generated by a property if it were fully let at market rent expressed as a percentage of the property valuation. In accordance with usual practice the property value is grossed up to include prospective purchasers' costs.

Supplementary Information

Shareholder Information

Registered Office

The Local Shopping REIT plc

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Key dates and other important information are available on our website: www.localshoppingreit.co.uk

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