the Local Shopping reit plc

27 November 2012

The Local Shopping REIT plc

("LSR" or the "Company" or the "Group")

UNAUDITED FULL YEAR RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2012

The Local Shopping REIT plc (LSE: LSR), a real estate investment trust that provides investors with access to a diversified portfolio of local shopping assets across the UK, today announces unaudited results for the year ended 30 September 2012.

Financial Highlights:

- Recurring profit* increased by 5.1% to £3.4 million or 4.2 pence per share (2011: £3.2 million or 4.0 pence per share) with a loss before tax of £9.2 million or 11.3 pence per share (2011: loss of £0.7 million or 0.9 pence per share)
- Market value of the portfolio of £177.2 million (2011: £189.2 million)
- Net Asset Value (NAV) of £41.3 million or 50 pence per share (2011: £53.8 million or 65 pence per share)
- Adjusted NAV of £50.4 million or 61 pence per share excluding liabilities arising from derivative financial instruments (2011: £63.1 million or 76 pence per share)
- Annual rent roll of £15.9 million (2011: £16.2 million) with like-for-like rent down 1.7% (2011: up 0.7%)
- Debt and financial management:
  - Total net debt of £130.9 million, reflecting an LTV of 73.5%, with no on-going loan to value default provisions on the fully drawn facilities (excluding the £10.5 million HSBC term loan) and low interest cover tests across all loans
  - £25.5 million of undrawn facilities as at 30 September 2012
  - Debt free properties valued at £17.0 million
  - No refinancing due until April 2016
- Total dividend for the year maintained at 4.0 pence per share (2011: 4.0 pence per share).

*A reconciliation of recurring profit to loss before tax in the Income Statement is given in the Finance Director's Review

Operational highlights:

- Further progress in investing through our joint ventures and in growing funds under management for our investment management business:
  - £24.6 million of acquisitions during the year for our joint venture with Pramerica Real Estate Investors, with another asset acquired for £3.2 million following the year end, bringing the total investments completed to date to £39.5 million. Two further properties currently under offer for a combined £3.1 million
  - Eight properties acquired for a total purchase price of £4.9 million on behalf of the £60 million unlisted fund established in partnership with Schroders, since its creation in March, with a further ten assets under offer for a combined purchase price of £12.5 million

- Significant rise in the annual rent roll of distressed assets managed on behalf of three UK lenders to £2.9 million (2011: £0.9 million)
- Overall void rate is 10.9% (2011: 10.6%), of which 2.5% of the total were deliberate:
  - 107 vacant commercial units let at an annual rental income of £1.0 million (2011: 130 units let at £1.2 million per annum), of which 45 were let in the second half producing £394,826 per annum
  - 205 rent reviews with an average rental uplift of 3.1% (7.7% above Market Rent) increased income by £84,622 per annum
  - 40 lease renewals secured in line with previous passing and Market Rent
  - Rental deposits remained broadly constant at £927,000 or 23.3% of the quarterly rent roll (2011: £970,000)
  - Eight newly constructed flats let, adding a further £49,800 per annum to rent roll
- Solid progress made with the Company's strategy of divesting ex-growth properties, with the sale of 11 assets (including five flats) during the year, five of which were sold during the second half for £0.7 million, showing a 8.8% surplus over the 31 March 2012 valuation. Since the year end, two further flats have been sold for a total of £0.2 million
- Planning consent secured for 12 flats, a 12,000 sq ft extension to an existing food store in St Helen's and the sub-division of one property into two smaller retail units. Change-of-use consents to higher value uses obtained on six units to improve their letting prospects
- Construction completed on 12 flats, eight of which are now leased (see above) and a further three sold, with six other flats under construction
- Strategic review launched on 12 November 2012 to consider all strategic options available to the Company to maximise value for shareholders.

Grahame Whateley, Chairman of The Local Shopping REIT plc, commented: "While the Company has been demonstrably successful in its operational activities since its IPO in 2007, the Board believes that, given its current rating, due in part to its size and capital structure and the challenge of creating a scaleable business during a period of considerable property and financial market volatility, it is in the interest of shareholders as a whole to review options open to the Company. We therefore announced on 12 November that we were launching a strategic review to consider how value can be maximised for all our shareholders, and any further update will be communicated as appropriate."

Mike Riley, Joint Chief Executive Officer, said: "LSR's reputation for being able to add value to smaller commercial properties located throughout the UK is widely recognised and has led to us being appointed both as a JV partner and as a manager of distressed assets. Over the period we have continued to acquire properties for our JV with Pramerica and are now switching our efforts to implementing our asset management plans as we move out of the investment phase. We have also begun investing on behalf of the fund we set up with Schroders in March and, together with an increase in properties under management for three UK lenders, there is now a solid platform in place."

Nick Gregory, Joint Chief Executive Officer, added: "In contrast with much of the wider retail market, where discretionary spend is under pressure, the occupier market for local shopping remains relatively healthy with demand from both national and local retailers. This demand is more broadly spread throughout the UK as retailers everywhere seek to tap into an increasing demand for local retail driven by higher fuel costs, "just in time" shopping and an increasing desire from consumers for convenience. LSR is well placed to benefit from this trend with its expertise and track record in the sector, national convenience retailer contacts, flexible leasing policy and extensive network of local agents active in their markets. In addition, our flexible leasing policy and hard work from our asset managers has enabled us to maintain a stable void rate over the course of the year."

The management is available to meet with analysts and institutional investors today; please use the contact details below if you would like to arrange a meeting.

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About The Local Shopping REIT

The Local Shopping REIT plc (LSR) is the first specialist start-up Real Estate Investment Trust ("REIT") to launch in the UK.

Already a major owner of local retail property, the Company is building a portfolio of local shops in urban and suburban areas, investing in neighbourhood and convenience properties 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 2012 the Company's directly owned portfolio comprised 644 properties, with over 2,000 letting units. In addition, the Company deploys its unique set of specialist asset management skills in the management of third party assets and joint ventures, building upon its current mandates with a number of leading institutions.

For further information on LSR, please visit www.localshoppingreit.co.uk.

CHAIRMAN'S STATEMENT

I am pleased to announce the Company's full year results for the 12 month period to 30 September 2012.

Introduction

On an operational level the Company continues to perform well in executing its strategy of optimising the value of, and income from, existing assets, as well as using its business platform and asset management skills to grow revenue.

By working the portfolio hard we have maintained the commercial void rate at 7.7% over the period and managed to keep the overall portfolio void rate broadly level at 10.9% (30 September 2011: 10.6%). Our successful asset management initiatives including residential conversions, reconfiguring units and securing change of use planning consents have helped mitigate a general market decline in property valuations over the year.

During the year we also made further encouraging progress in implementing the second element of our strategy: using our business platform and asset management skills to grow funds under management and thereby revenue. While we made no further acquisitions within our "work out" JV with an established UK financial institution, our JV with Pramerica Real Estate Investors made a further £24.6 million of acquisitions. In March 2012, we were pleased to announce the creation of a £60 million unlisted fund in partnership with Schroders to invest in convenience retail opportunities. Since its launch, we have purchased eight properties for the new fund with a combined purchase price of £4.9 million, and have a further active pipeline of investment opportunities. Over the period we have also seen a significant rise in the annual rent roll of distressed assets we manage on behalf of three UK lenders who recognise the value of our national coverage and specialist asset management skills. The rent roll of assets managed has increased from £0.9 million to £2.9 million with a resultant increase in asset management fees earned by the Group.

Results and Dividend

As a result of the successful implementation of both elements of our strategy I am pleased to report a 5.1% increase in recurring profit for the year to 4.2 pence per share (2011: 4.0 pence per share). This result was achieved despite a fall in rental income from our core portfolio and a rise in certain property operating costs, including the amount of empty rates payable over the period. However, this was countered by a fall in bad debt write-offs and a rise in asset management fee income which demonstrates the real value of our active asset management of the portfolio and the potential of new business initiatives to generate additional revenue. A reconciliation of the recurring profit to the loss before tax in the Income Statement is given in the Finance Director's Review.

I am pleased to announce a dividend for the second half of the year of 2.0 pence per share bringing the total for the year to 4.0 pence per share in line with the prior year. However, in light of the recently announced strategic review discussed below, the Board will review the Company's dividend distribution policy when the outcome of the strategic review is known.

The dividend will be paid by 31 December 2012 as a PID to shareholders on the register on 7 December 2012. This will take the total dividend paid for the year to 4.0 pence per share. The ex-dividend date will be 5 December 2012.

Strategic Review

LSR was established with the aim of becoming a market leading owner of local retail property in the UK. While the Company has been demonstrably successful in its operational activities since its IPO in 2007, the Board believes that, given its current rating, due in part to its size and capital structure, and the challenge of creating a scaleable business during a period of considerable property and financial market volatility, it is in the interest of shareholders as a whole to review options open to the Company.

The Board therefore announced on 12 November 2012 that it was launching a strategic review of the Company to consider how value can be maximised for shareholders. This review is being conducted by a committee of the Board comprising its non-executive directors. The Committee will consider all strategic options available to the Company, including alternatives within the status quo with the incumbent management team, external management proposals, strategic transactions such as a disposal of existing assets and corporate transactions such as a merger or a sale of the business.

Grahame Whateley
Chairman
27 November 2012

BUSINESS REVIEW

In the review below, as well as providing an overview of the business activities over the last 12 months, we also make comment, where appropriate, on the progress made since the portfolio was last valued on 31 March 2012.

Results and Net Asset Value

During the year, the Company achieved a £0.2 million increase in recurring profit to £3.4 million (4.2 pence per share), up from £3.2 million (4.0 pence per share) in 2011. This has largely been achieved through an increase in the asset management income earned from joint ventures and a reduction in certain property operating costs. This is discussed in more detail in the Finance Director's Review where a reconciliation of recurring profit to the statutory result is also provided.

In addition the Group has earned £0.1 million in one-off acquisition fees from the joint ventures in connection with the purchase of properties by these ventures.

The net asset value of the Group has fallen in value over the 12 month period by £12.5 million to £41.3 million. This is largely as a result of the decline in the value of the portfolio. The resultant decrease in NAV per share is 15 pence, down to 50 pence per share compared to 65 pence at 30 September 2011. The adjusted net asset value per share (adjusted for the fair value of the swap agreements) has fallen to 61 pence per share compared to 76 pence in 2011.

Portfolio Performance

Our directly owned portfolio was re-valued at the year end at £177.2 million, reflecting an equivalent yield (excluding residential element) of 9.31%. It now comprises 644 properties, with 2,043 letting units, and produces annual rental income of £15.9 million.

Combined Portfolio	
Value	£177.2 million
Initial Yield	8.47%
Reversionary Yield	9.18%
Equivalent Yield*	9.31%
Rent pa	£15.9 million
Market Rent pa	£17.2 million

Value Range	No. of Properties	Value £ million	Equivalent Yield*
£0 - £100k	167	12.2	9.90%
£101 - £200k	228	32.2	9.41%
£201 - £500k	161	51.5	9.38%
£501k - £1m	64	42.6	9.30%
£1m - £3m	22	32.4	9.06%
£3m +	2	6.3	8.33%
Total	644	177.2	9.31%

* excluding residential element

The table above illustrates the range of property values throughout the portfolio. The average property value is £275,134 and the median is £150,000. The residential element of the portfolio has been valued at £18.0 million, based typically on 85% of vacant possession value. The average value of the residential units in our portfolio remains low, at just above £56,000.

Like-for-like portfolio – adjusted for part sales

	30 September 2012	30 September 2011	Change
Value	£175.9 million	£187.1 million	-6.00%
Initial Yield	8.47%	8.18%	+29 bps
Reversionary Yield	9.17%	8.76%	+41 bps
Equivalent Yield*	9.31%	8.83%	+48 bps
Rent per annum	£15.9 million	£16.2 million	-1.66%
Market Rent per annum	£17.2 million	£17.3 million	-0.45%

* excluding residential element

Over the year as a whole, the portfolio Market Rent has held up well, falling only 0.45% compared with a fall of 0.64% during the previous financial year. However, as a result of the small rise in the void rate over the period, coupled with the granting of nine rent concessions to struggling tenants in locations where we would prefer not to take back units (two of which, to Peacocks and Superdrug, accounted for 75% of the total conceded amount), like-for-like rent fell 1.66% compared with an increase of 0.65% in the year to 30 September 2011.

On a like-for-like basis, the portfolio value was down 6.00% over the period with the equivalent yield (excluding the residential element) moving out 48 basis points to 9.31%. Our well-let properties and those in the more southern parts of the UK held their value reasonably well, underpinned by demand from cash rich private investors. Elsewhere, investor demand was patchy and not helped by the withdrawal of a number of major lenders to the sector over the period. The consequent fall in values in these regions was a significant driver behind the decline in the overall portfolio valuation (Scotland, Wales and the North were the worst performing regions in valuation terms within the LSR portfolio, while London was by some way the best with the equivalent yield moving out only three basis points).

Investment Market

Private investors, faced with low interest rates, continue to invest in smaller lot sized properties in order to satisfy their requirement for income. Auction markets provide a helpful indicator of the strength of the private investor market. Over the year, sales volumes and success rates have remained healthy, particularly for properties let to robust national covenants on longer leases, or for properties located within southern or other affluent parts of the UK. Elsewhere, demand from private investors is weaker and realistic pricing is the key to achieving sales. This weakening of demand has driven values down over the course of the year. The withdrawal in recent months of a number of key lenders to investors in smaller lot sized properties has had a further negative impact on the amount of money private investors and smaller property companies have available for investment. Despite this, low interest rates look to be broadly supportive of current valuation levels and this has encouraged owner-occupiers to consider purchasing rather than renting. We have seen the impact of this within our own portfolio, with increased interest from owner-occupiers and our existing tenants in acquiring their premises.

With the banking sector still needing to carry out a substantial de-leveraging, driven by increasingly stringent capital requirements, we have seen some increase in the volume of bank-led sales coming to the market during the course of the year. However, the inability or unwillingness of banks to make appropriate write-downs has often led to a mismatch between the pricing expectations of buyers and sellers which, in turn, has led to a number of abortive sales. As a result, we have seen an increasing realisation amongst lenders over recent months that, in addition to implementing programmes of individual property, portfolio and loan books sales, market conditions mean they must also adopt longer term asset management-led solutions for the distressed properties on their books. With our national coverage, extensive network of local agents and specialist asset management skills as well as our understanding of the dynamics of property lending, LSR is well placed to assist lenders in implementing these longer term asset management strategies.

Acquisitions and Sales

While we believe the current market offers a strong pipeline of accretive investment opportunities, we continued to focus our acquisition efforts during the period on buying properties for our Pramerica JV and on behalf of our local retail fund with Schroders. However, during the year, we did purchase one property in Ayr for £0.3 million at a 7.32% net initial yield. The property is adjacent to an existing ownership and there is potential to combine both units at a future date to create a larger unit suitable for a convenience operator.

In line with our on-going policy, we continued to make progress in selling ex-growth properties. During the year, we sold six commercial properties and five flats for a total of £2.3 million, representing a 13.9% premium to valuation. Five of these were sold during the second half of the year for £0.7 million showing an 8.8% surplus over 31 March 2012 valuations. Since the year end, we have completed the sale of two flats in Poole and Warwick for a combined £0.2 million.

Occupier Market

A backdrop of weak domestic growth, inflation above the Bank of England's target, substantial cuts to public spending and instability within the Eurozone are all having a major bearing on occupier markets. The resulting squeeze on disposable income and the knock-on adverse impact on consumer confidence has placed severe pressure on many traditional high street retailers whose business models rely on discretionary spend. Such retailers are faced with ever-growing competition from the internet, out-of-town developments and the larger regional shopping centres. As a result, trading conditions remain extremely challenging and, over the course of the year, we have witnessed the failure of several prominent high street brands. However, in contrast with much of the wider retail market, the occupier market for convenience-led local shopping remains relatively healthy, with demand from both national and local retailers. This is evidenced within our portfolio by the 107 lettings completed during the year with an annual rent roll of approximately £1 million to tenants ranging from local hairdressers (making up the most common category, closely followed by takeaway outlets) to national convenience store operators whose demand for space continues unabated. In addition, we believe rents within the local shopping market remain affordable, with the average shop rent in our portfolio only £11.07 per sq ft, or £12,000 per annum (£231 per week).

Despite the challenging economic backdrop, our flexible leasing policy, supported by our extensive network of local letting agents and hard work from our asset managers, has enabled us to maintain a stable void rate over the course of the year.

Key Performance Indicator - Void Rate

	30 September 2012	31 July 2012	31 March 2012	31 January 2012	30 September 2011
Vacant – Commercial	7.7%	7.8%	7.6%	7.6%	7.7%
Vacant – Deliberate	2.5%	2.4%	2.2%	2.2%	2.3%
Vacant – Residential	0.7%	0.8%	0.8%	0.9%	0.6%
Total	10.9%	11.0%	10.6%	10.7%	10.6%

Our success in letting vacant commercial units while keeping on top of tenant turnover has kept the commercial void rate level at 7.7% as at 30 September 2012. The level of deliberate voids has risen, as anticipated, to 2.5% (30 September 2011: 2.3%) as we continue to look for opportunities to add value to our portfolio through reconfigurations and change of use (particularly the conversion of redundant upper floors above shops into flats). Managing a geographically diverse portfolio of 321 flats provides its own opportunities and challenges and, during the year, we carried out 147 new lettings, 218 tenancy extensions, refurbished 44 flats and carried out a further 590 minor repairs. As a result of these initiatives and hard work the residential void rate has also been stable over the period, ending the year at 0.7% (30 September 2011: 0.6%).

Although our retail tenants predominantly supply the convenience and top-up shopping needs of local communities, the difficult economic backdrop means bad debts are inevitable. However, we are pleased to report that our continuing strong focus throughout the year on credit control has led to a fall in our bad debt write-offs for a third year in a row. During the year, bad debt write-offs fell by 15.2% to £684,352, compared with £806,632 in the previous financial year. We continue to take a robust approach to debt recovery and our success in letting vacant space gives us the confidence to take back units where tenants are in financial difficulty so we can re-let them and improve the quality of our cash flow. However, we also recognise that there may be occasions when it is sensible to let a tenant remain in occupation at a reduced rent in order to mitigate our outgoings, particularly our liability for empty rates, if the local letting market is challenging.

When we let units to independent tenants or deal with assignments and sub-lettings, it is our policy to seek rent deposits of between three to six months. The number and value of deposits held at 30 September 2012, totalled approximately £927,000 (30 September 2011: approximately £940,000) or 23.3% of our quarterly rent roll. This provides us with a measure of protection against tenant default, which is not generally available when letting units to national retailers.

Asset Management

LSR's reputation for being able to add value to smaller commercial properties located throughout the UK is widely recognised and has led to us being appointed both as a JV partner and as a manager of distressed assets. We are pleased to report that we continue to achieve strong results by applying these asset management skills to our wholly owned portfolio.

Despite challenging trading conditions, demand for local shops remains firm. During the year to 30 September 2012, a pragmatic approach to leasing allowed the Company to let 107 vacant commercial units at a total rent of £997,649 per annum (compared to 130 units let at £1,210,240 per annum during the previous year). Despite the disruption to market activity caused by a summer of Jubilee and Olympic festivities we managed to let 45 of these during the second half of the year at a total rent of £394,826 per annum. Over the full year the units were let, on average, at just 0.8% below Market Rent. However, this average does not take account of 21 new lettings which incorporated stepped rent increases, which we have excluded from our comparison. These 21 lettings were secured at an initial rent of £214,143 per annum rising to £257,230 per annum over the first three years of their leases, compared with a Market Rent of £234,690 per annum. The remaining 86 units were let at a 1.6% premium to Market Rent. Given the majority of our tenants are independent traders, and with our focus on maximising cash flow, we prefer to deal with letting incentives by way of these stepped rents, rather than by granting protracted rent free periods. Our average rent free period on lettings completed during the year was just 69 days. The letting pipeline also remains healthy with 16 units under offer as at 30 September 2012, for a combined rental of £208,700 per annum.

Growing rents at rent review and particularly at lease renewal is a challenge in the current market. However, over the year, rent reviews on 205 units increased rental income by a total of £84,622 per annum, reflecting an average uplift of 3.1%, and 7.7% above Market Rent. Lease renewals on 40 units were carried out in line with both previous passing rent and market rent, thereby maintaining income.

As mentioned above, we continue to extract value from under-used and poorly configured properties. In February we obtained planning permission for the sub-division of a large retail unit in Birkenhead into two letting units. We took a surrender of the previous occupier's lease (an independent carpet retailer) who was paying a rent of £38,000 per annum. Demonstrating the active demand from national convenience retailers in our market, we simultaneously signed an agreement for lease with Tesco to take approximately two thirds of the space on a 15 year lease at £48,000 per annum, leaving us with an additional unit to let with a market rent of £18,000 per annum. In May we received consent for a 12,000 sq ft extension to an existing food store in St Helens following extensive consultation with the local community. In addition, we obtained six change of use consents from class A1 (shops) to higher value uses in order to improve their letting prospects. Five of these have subsequently been let at 10.8% above Market Rent and the remaining unit is currently in solicitors' hands.

During the year we also secured planning consent for 12 flats in the upper parts of four retail properties. In line with our on-going policy we will build these out if we can secure an acceptable rental yield following conversion. During the year we completed the construction of 12 flats over four separate projects and the split of a large flat in Paignton into two smaller units. Since completion, eight of these flats have been let at a combined £49,800 per annum, three have been sold and three remain on the market for sale or to let. A further six flats are currently under construction.

Working with Banks

One element of our current strategy is the management of distressed assets. Our nationwide coverage, extensive network of local agents and specialist asset management skills are well recognised in the market. This has led to our appointment by three lenders to manage distressed situations on their behalf. During the year, further properties were added to our mandates which has brought the annual rent roll of properties under management to just over £2.9 million (30 September 2011: £0.9 million).

Joint Ventures and Investments

A second element of our current strategy is to seek to grow the business through the creation of joint ventures.

Our first such JV, with Pramerica Real Estate Investors, was established in November 2010 to invest in retail parades and neighbourhood centres throughout the UK. Since 30 September 2011 we have continued to make good progress with our acquisition programme, completing the purchase of 11 properties for a combined £24.6 million. Since the year end we have acquired a further property in Frodsham, Cheshire for a £3.2 million, bringing the purchase price of deals completed to date to £39.5 million. The properties acquired are a mix of newly developed and established parades and neighbourhood centres. The largest of these acquisitions was the forward funding of the 50,000 sq ft Halewood District Centre in Liverpool for £7.2 million which has now reached practical completion. A further two properties are under offer for a combined £3.1 million. These potential acquisitions are likely to be the last for the JV as it moves out of its investment phase. In order to finance the completed acquisitions, we have drawn down £21.0 million from the JV's HSBC facility, of which we have hedged £9.3 million, resulting in an overall average interest rate of 3.1%.

As previously announced, our second "work out" JV with an established UK financial institution was set up in September 2011. Four properties were acquired at inception for a combined £3.4 million. One of these properties, a tyre service depot in Glasgow, was sold on 28 September 2012 for £1.3 million against a purchase price of £1.1 million. We are continuing to review further opportunities to build upon this relationship.

Our third such venture was an 8.3% investment in a new £60 million unlisted fund in partnership with Schroders in March 2012 to invest in convenience retail opportunities. The fund will be ungeared with an income focus and has a five year life. It will target convenience retail stores, such as Tesco Express and Sainsbury's Local, either standalone or with adjacent units let to national multiples and local retailers with an anticipated average net initial yield of 6.5%. The fund will also be seeking to identify properties which will offer additional asset management opportunities for LSR to exploit and to enhance each asset's capital value and income stream. During the financial year, the fund completed the acquisition of eight properties with a combined purchase price of £4.9 million at a blended yield of 6.69%. A further ten properties with a combined purchase price of £12.5 million are under offer.

In view of the strategic review, the Company suspended its commitment to further funds to all of its joint ventures and investments and this has resulted in a breach of the terms of one of the partnership agreements. The Company however continues to work collaboratively with its joint venture and investment partners to ensure that they continue to be managed for the benefit of the Company's shareholders. For clarity, the Company has in aggregate approximately £5.6 million invested to date within all three of its joint ventures and investments.

Business Outlook

The current low level of interest rates provides support to values in our sector as private investors seek income from their investments. However, even within the local shopping sector, economic instability has led to a "flight to quality" with investors focusing their purchasing on long leased properties to good covenants and assets in the more southern parts of the UK. Elsewhere, demand is patchy and the withdrawal of a number of major lenders to the sector over the period has further reduced the amount of capital available for investment in these areas, putting pressure on valuations. This weakness is providing many compelling opportunities to acquire sustainable local retail assets at accretive yields which we have been able to capture through our Pramerica JV and, more recently, for our fund with Schroders.

Market conditions during the year remained challenging. A backdrop of weak domestic growth, inflation above target, substantial cuts to public spending and instability within the Eurozone are all having a major bearing on occupier markets. However, in contrast with much of the wider retail market, where discretionary spend is under pressure, the occupier market for local shopping remains relatively healthy, with demand from both national and local retailers. This demand is more broadly spread throughout the UK as retailers everywhere seek to tap into an increasing demand for local retail driven by higher fuel costs, "just in time" shopping and an increasing desire from consumers for convenience. LSR is well placed to benefit from this trend with its expertise and track record in the sector, national convenience retailer contacts and extensive network of local agents active in in their markets.

Over the period we have continued to acquire properties for our JV with Pramerica and are now switching our efforts to implementing our asset management plans as we move out of the investment phase. During the course of the year we set up our fund with Schroders to invest in convenience retail opportunities and, together with an increase in properties under management for three UK lenders, there is now a solid platform in place.

However, despite further encouraging operational progress, which has resulted in another year of increased recurring profit, the Company recognises it faces a number of challenges. The Chairman's statement notes that, having reflected on the performance of the Company since its IPO in 2007, the Board announced on 12 November 2012 that it was undertaking a strategic review of the business to consider how value can be maximised for shareholders. While this process is on-going, the LSR team remains committed to optimising the value of and income from its existing assets.

Community and Partnerships

We recognise our responsibilities as an owner and manager of assets within the built environment. We believe that the nature of our investments – principally in shops that serve their local communities – is a positive force for both the environment and social activity and we seek constructive dialogue with local authorities and other stakeholders in relation to any environmental or social and community issues that present themselves.

Our network of national, regional and local agents remains central to our business model and we are grateful to them, and to our excellent team of corporate advisers, for their continued support. We would also like to take the opportunity to thank all of our staff who have contributed to our business performance over the past year.

Mike Riley & Nick Gregory
Joint Chief Executive Officers
27 November 2012

Finance Director's Review

This report has been prepared in accordance with International Reporting Standards ("IFRS"). During the year, as described in the Business Review, the Group has invested in an unlisted fund in partnership with Schroders which has resulted in the adoption of a new accounting policy. This policy is described in the basis of preparation note provided in the Notes to the Preliminary Financial Statements in the latter part of this announcement.

Key Performance Indicators

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

	30 September 2012	30 September 2011
Interest cover*	209%	215%
Loan to value (LTV) ratio**	73.5%	68.5%
Adjusted NAV per share***	61p****	76p****
Gearing (net of cash held)	317%	234%
Recurring profit per share*****	4.2 pence	4.0 pence

*Based on rental income compared to interest payable
** Net of cash held
***Based on 82,505,853 shares in issue at 30 September 2012 (2011: 82,505,853)
**** Adjusted to exclude the fair value of financial derivatives
*****Based on 81,409,308 shares on which a dividend is paid (2011: 81,391,764)

Recurring Profit

The performance of the Group's underlying operating business, including the increased provision of asset management services to third parties and entities in which the Group has invested, again shows an improvement on the previous year.

The recurring profit for the year was £3.4 million (2011: £3.2 million). The calculation of recurring profit remains consistent with previous years. It also includes the Group's share of the recurring results of the joint ventures in which the Group has invested. A reconciliation of the loss before tax to the recurring profit is as follows:

	30 September 2012 £000	30 September 2011 £000
Loss before tax	(9,178)	(710)
Movement in fair value of the portfolio	12,165	3,843
Movement in the fair value of the interest rate swaps held	(216)	131
Profit on sale of investment properties	(84)	(51)
Non-recurring income	(130)	(92)
Non-recurring expenditure	506	122
Non-recurring income and expenditure incurred by the joint ventures	341	(3)
Recurring profit	3,404	3,240

Non-recurring income includes the one-off acquisition fees received from the joint ventures when properties are purchased by these vehicles. Non-recurring expenditure includes: the charges incurred for cancelling part of the HSBC term loan; professional advisers' fees incurred in connection with the exploration of a potential transaction which was considered by the Company earlier in the year; and fees incurred in connection with the set-up of the joint ventures.

The Group's dividend policy has previously been the payment of 100% of recurring profits. In light of the recently announced strategic review, the Board will review the Company's dividend distribution policy when the outcome of the strategic review is known. In the interim, it has been decided to maintain the level of dividend paid.

The recurring profit per share is 4.2 pence (2011: 4.0 pence) for the year. A dividend will be paid of 2.0 pence (2011: 2.1 pence) by 31 December 2012 to shareholders on the register at 7 December 2012 which, together with the dividend of 2.0 pence per share (2011: 1.9 pence) which was paid on 30 June 2012, takes the total dividend for the year to 4.0 pence (2011: 4.0 pence). As in previous years, the Employee Benefit Trust will waive its right to a dividend.

Dividends distributed by REIT's are known as PID's and non-PID's. The dividend to be paid by 31 December 2012 will be a PID. The allocation of future dividends between PID and non-PID may vary.

Results

The Group has recorded a loss before tax for the year of £9.2 million, mainly as a result of the write-down of the fair value of the property portfolio, which is recorded in the Income Statement, in accordance with IFRS.

Rental income has fallen in the year as a result of: the sale of a number of properties, a small increase in the void rate and the granting of nine rent concessions to tenants.

Property operating costs have fallen during the year. As in previous years, various elements of these costs have increased whilst others have fallen. The additional cost reflecting the full impact of the removal of empty rates relief on vacant properties in April 2011 has been incurred in the current year. However, letting costs have fallen in the year under review compared to the prior year. As previously described, these costs are highly dependent on the turnover of tenants and the ability to use Law Society leases as opposed to engaging third party lawyers to complete the lettings. As described in the Business Review, the bad debt charge for the year has fallen considerably.

Administrative expenses increased during the year. As described above, £506,000 relates to one-off non-recurring expenditure. Once adjustment is made for these non-recurring costs, administrative expenses remain broadly in line with previous years.

Net other income grew in the year as a result of the acquisition fees and management fees received from the joint ventures and third party asset management contracts undertaken by the Company. Included in other expenses are any costs directly attributable to these asset management activities.

Interest payable increased year on year as further funds were drawn down to invest in the existing portfolio, the new joint ventures and investments. An additional write-off of the loan arrangement fees carried on the Balance Sheet has been made following the part cancellation of one of the loan facilities. The Group continues to hold the same interest rate swaps as in 2011 subject to the £200,000 per quarter amortisation of one of the contracts. The liability arising from these swaps has remained constant compared with 2011, with only a £0.2 million credit charged to the Income Statement for the year.

Net Assets

The net assets of the Group have fallen to £41.3 million at the year end, compared to £53.8 million in 2011. The fall is largely as a result of the decline in the fair value of the portfolio.

During the year, further investment was made in the upper parts of properties, their conversion to residential flats and the re-configuration of existing flats to improve the rental income generated by these properties. In addition, continued investment was made to exploit the additional development opportunities within the portfolio which often involved the splitting of properties to create more units with an increased combined rental value. Investment was also made in maintaining the current level of repair of the portfolio to ensure the units remain attractive to new tenants and retain existing tenants.

The Group's revaluation policy remains unchanged. At the half year end and year end, 25% of the portfolio, plus all properties purchased in these two six-month periods, were valued by Allsop LLP, a firm of Chartered Surveyors, acting as external valuers, who are experienced in the Group's particular type of property. The remainder of the portfolio has been valued on the basis of Market Value by the directors who have relevant experience and professional qualifications.

Joint Ventures and Investments

Investments in joint ventures continue to be equity accounted for. The portfolio values have fallen largely as a result of the acquisition costs incurred on the purchase of the assets, as the majority of the assets have been purchased in the last twelve months. As a result the Group has recorded the appropriate share of the losses made by these joint ventures. When their loss before tax is adjusted for the fall in the fair value of their portfolios and the negative valuation arising from the interest rate swaps both joint ventures have taken out to manage their interest rate exposures, both joint ventures have achieved recurring profits.

The new investment made in the current year in the unlisted partnership with Schroders has been recorded at fair value in accordance with IFRS. The Group has an 8.3% interest in this vehicle and provides asset acquisition and management services. Profit shares from this investment will be recognised when a right to receive payment is established.

At the year end the Group had invested a total of £5.2 million into these ventures; this has risen to £5.6m to date. Further details of these ventures are given in notes 9 and 10 in the Notes to the Preliminary Financial Statements.

Bank Debt and Facilities

The Group operates using the following facilities:

Loan	Facility £ million	Loan outstanding £ million	Undrawn £ million	LTV covenant	Repayable in one instalment	Termination date
Barclays fixed rate loan	69.2	69.2	-	No	Yes	October 2016
HSBC fully drawn term loan	47.7	47.7	-	No	Yes	April 2016
HSBC term loan	10.5	10.5	-	Yes	Yes	October 2016
HSBC revolving credit facility	35.0	9.5	25.5	Yes	Yes	October 2016
		136.9	25.5			

As shown above, at 30 September 2012 the total debt drawn down by the Group was £136.9 million (2011: £131.3 million). At the start of the year the Group had an undrawn term facility with HSBC of £14.5 million. During the year this was cancelled, thereby reducing the undrawn facilities available to £25.5 million. As previously described, costs were incurred in connection with this cancellation. These have been treated as non-recurring and were less than the ongoing undrawn commitment fees due on the facility. None of the loan facilities fall due for repayment before 2016.

During the year, the Group drew down and repaid the HSBC revolving credit facility as needed. This resulted in a net draw down of £5.6 million which has largely been used to invest in: the joint ventures, investments and the wholly owned portfolio. This facility includes an LTV covenant of 85%, together with actual and forecast interest cover tests. There is an undrawn commitment fee of 60 basis points which has been applicable to the undrawn facility throughout the year.

All of the loans have actual and forecast interest cover tests which must be complied with under the terms of the facilities. The interest cover is tested at various times throughout the year and, at each testing date, each loan was determined to be compliant. The level of interest cover required by each loan is listed below.

	Actual ICR	Forecast ICR
Barclays fixed rate loan	110%	110%
HSBC fully drawn term loan	115%	107%
HSBC term loan and revolving credit facility	120%	110%

The Group continues to hold properties with a total value of £17.0 million, which have no debt drawn against them. These could be used in a number of ways which, together with the loan facilities available, give the Group flexibility in the future and enable the Group to meet its commitments to invest in the joint ventures and other investments.

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. The asset management income earned in the year will form part of the "residual" business, profits from which are not exempt from Corporation Tax. The Group continues to have available losses to relieve any such profits arising. Therefore, no provision for Corporation Tax has been made.

Consolidated Income Statement
for the year ended 30 September 2012

	Note	**Year ended 30 September 2012 £000**	Year ended 30 September 2011 £000
Gross rental income		**15,809**	16,078
Property operating expenses		**(2,545)**	(2,628)
Net rental income		**13,264**	13,450
Profit on disposal of investment properties		**84**	51
Loss from change in fair value of investment properties	*8*	**(12,165)**	(3,843)
Administrative expenses including significant items	*21*	**(3,319)**	(2,736)
Net other income	*2*	**520**	40
Share of results from jointly controlled entities	*9*	**(207)**	(55)
Operating (loss)/profit before net financing costs		**(1,823)**	6,907
Financing income*	*3*	**3**	4
Financing expenses*	*3*	**(7,574)**	(7,490)
Movement in fair value of financial derivatives	*3*	**216**	(131)
Loss before tax		**(9,178)**	(710)
Taxation	*5*	**-**	-
Loss for the financial year attributable to equity holders of the company		**(9,178)**	(710)
Basic and diluted loss per share	*4*	**(11.3p)**	(0.9p)

* Excluding movement in the fair value of financial derivatives

Consolidated Statement of Comprehensive Income
for the year ended 30 September 2012

	Year ended 30 September 2012 £000	Year ended 30 September 2011 £000
Loss for the financial year	**(9,178)**	(710)
Total comprehensive income for the year	**(9,178)**	(710)
Attributable to:		
Equity holders of the parent company	**(9,178)**	(710)

Consolidated Balance Sheet

as at 30 September 2012

	Note	**At 30 September 2012 £000**	At 30 September 2011 £000
Non current assets			
Property, plant and equipment	*7*	**126**	161
Investment properties	*8*	**178,109**	190,111
Investments in jointly controlled entities	*9*	**4,070**	1,823
Other investments	*10*	**909**	-
Total non-current assets		**183,214**	192,095
Current assets			
Trade and other receivables	*11*	**4,698**	3,773
Cash		**5,496**	4,461
Total current assets		**10,194**	8,234
Total assets		**193,408**	200,329
Non current liabilities			
Interest bearing loans and borrowings	*12*	**(136,380)**	(130,620)
Finance lease liabilities	*17*	**(922)**	(922)
Derivative financial instruments	*15*	**(6,595)**	(7,264)
Total non-current liabilities		**(143,897)**	(138,806)
Current liabilities			
Interest bearing loans and borrowings	*12*	**-**	-
Trade and other payables	*13*	**(5,739)**	(5,689)
Derivative financial instruments	*15*	**(2,447)**	(1,994)
Total current liabilities		**(8,186)**	(7,683)
Total liabilities		**(152,083)**	(146,489)
Net assets		**41,325**	53,840
Equity			
Issued capital	*14*	**18,334**	18,334
Reserves	*14*	**3,773**	3,773
Capital redemption reserve	*14*	**1,764**	1,764
Retained earnings		**17,454**	29,969
Total attributable to equity holders of the Company		**41,325**	53,840

Consolidated Statement of Cash Flows

for the year ended 30 September 2012

	Note	**Year ended 30 September 2012**	Year ended 30 September 2011
		£000	£000
Operating activities			
Loss for the year		**(9,178)**	(710)
Adjustments for:			
Loss from change in fair value of investment properties	*8*	**12,165**	3,843
Net financing costs	*3*	**7,355**	7,617
Profit on disposal of investment properties		**(84)**	(51)
Depreciation		**40**	38
Employee share options		**-**	3
Share of result in jointly controlled entities	*9*	**207**	55
		10,505	10,795
(Increase)/decrease in trade and other receivables		**(925)**	552
(Decrease)/increase in trade and other payables		**(80)**	759
		9,500	12,106
Interest paid		**(7,286)**	(7,491)
Interest received		**3**	4
Corporation tax paid		**-**	-
Net cash flows from operating activities		**2,217**	4,619
Investing activities			
Proceeds from sale of investment properties		**2,174**	5,020
Acquisition of and improvements to investment properties	*8*	**(2,251)**	(5,116)
Acquisition of property, plant and equipment	*7*	**(5)**	(11)
Investment in jointly controlled entities	*9*	**(2,454)**	(1,878)
Investment in other investments	*10*	**(909)**	-
Cash flows from investing activities		**(3,445)**	(1,985)
Net cash flows from operating activities and investing activities		**(1,228)**	2,634
Financing activities			
Repayment of borrowings		**(300)**	(2,200)
New borrowings		**5,900**	1,000
Dividends paid	*6*	**(3,337)**	(3,093)
Cash flows from financing activities		**2,263**	(4,293)
Net increase/(decrease) in cash		**1,035**	(1,659)
Cash at the beginning of the year		**4,461**	6,120
Cash at the end of the year		**5,496**	4,461

Consolidated Statement of Changes in Equity
for the year ended 30 September 2012

	Share capital	Reserves	Capital redemption reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 October 2010	18,334	3,773	1,764	33,769	57,640
Total comprehensive income for the year					
Loss for the year	-	-	-	(710)	(710)
Transactions with owners, recorded directly in equity					
Dividends	-	-	-	(3,093)	(3,093)
Share based payments	-	-	-	3	3
Total contributions by and distributions to owners	-	-	-	(3,090)	(3,090)
Balance at 30 September 2011	**18,334**	**3,773**	**1,764**	**29,969**	**53,840**
Total comprehensive income for the year					
Loss for the year	-	-	-	(9,178)	(9,178)
Transactions with owners, recorded directly in equity					
Dividends	-	-	-	(3,337)	(3,337)
Share based payments	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	(3,337)	(3,337)
Balance at 30 September 2012	**18,334**	**3,773**	**1,764**	**17,454**	**41,325**

Notes to the Preliminary Financial Statements
for the year ended 30 September 2012

Accounting policies

1 Basis of preparation

The financial information set out below does not constitute the company's statutory accounts for the years ended 30 September 2012 and 30 September 2011. The financial information for 2011 is derived from the statutory accounts for 2011 which have been delivered to the Registrar of Companies. The auditors have reported on the 2011 accounts: their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2012 will be finalised on the basis of the financial information presented by the directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies in due course.

The financial information contained in these preliminary results has been prepared in accordance with the accounting policies set out in the 2011 Annual Report, which were prepared in accordance with IFRS's as adopted by the EU. The accounting policies are set out on pages 38 to 41 of the 2011 Annual Report which is available on the company's website (www.localshoppingreit.co.uk).

During the year the Group has invested in a new venture which has been accounted for as a non-current investment, therefore, the following new accounting policy has been adopted in respect of this investment.

Other non-current investments are classified as available for sale financial assets and are recognised at fair value. Changes in the fair value in the year are recognised directly in the Statement of Comprehensive Income. Dividend income from investments is recognised in the Income Statement when the right to receive payment is established.

There have been no other new standards adopted in the year which have had a significant impact on the results of the Group.

2 Net other income

	2012	2011
	£000	£000
Other income	**574**	210
Other expenses	**(54)**	(170)
	520	40

In the current and previous year, the majority of other income relates to fees earned from asset management services and property acquisition services provided to third parties, jointly controlled entities and other investments. Other expenses relate to costs incurred in connection with the provision of these services.

3 Net financing costs

	2012 £000	2011 £000
Financing income		
Interest receivable	**3**	4
Interest receivable excluding fair value movements	**3**	4
Fair value gains on derivative financial instruments (note 15)	**216**	-
Financing income	**219**	4
Financing expenses		
Bank loan interest	**(7,338)**	(7,290)
Amortisation of loan arrangement fees	**(181)**	(145)
Head rents treated as finance leases	**(55)**	(55)
Financing expenses excluding fair value movements	**(7,574)**	(7,490)
Fair value losses on derivative financial instruments (note 15)	**-**	(131)
Financing expenses	**(7,574)**	(7,621)
Net financing costs	**(7,355)**	(7,617)

4 Earnings per share

Basic earnings per share

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

Loss attributable to ordinary shares

	2012 £000	2011 £000
Loss for the year	**(9,178)**	(710)

Weighted average number of ordinary shares	2012 Number 000	2011 Number 000
Issued ordinary shares at the start of the year	**91,670**	91,670
Shares held by EBT	**(1,103)**	(1,114)
Treasury shares	**(9,164)**	(9,164)
Weighted average number of ordinary shares at the end of the year	**81,403**	81,392

Diluted earnings per share

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

5 Taxation

	2012	2011
	£000	£000
Current tax		
Corporation tax charged at 25% (2011: 27%)	**-**	-
Total current tax	**-**	-
Deferred tax charge		
Origination and reversal of temporary differences	**-**	-
Total tax charge in the Income Statement	**-**	-

Reconciliation of Effective Tax Rate	**2012**	2011
	£000	£000
Loss before tax	**(9,178)**	(710)
Corporation tax in the UK of 25% (2011: 27%)	**(2,294)**	(192)
Effects of:		
Tax relief available from REIT status	**(1,560)**	(366)
Revaluation deficit and other non-deductible items	**3,308**	72
Deferred tax asset not recognised	**546**	486
	-	-

Factors that may affect current and total tax charges

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

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

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

6 Dividends

The following dividend payments were paid during the current and previous years.

Date paid	Dividend per share	Total payment £000	Classification of dividend
30 June 2012	2.0 pence	1,628	PID
31 December 2011	2.1 pence	1,709	Non-PID
30 June 2011	1.9 pence	1,546	PID
31 December 2010	1.9 pence	1,546	PID
30 June 2010	1.7 pence	1,384	PID
31 December 2009	1.8 pence	1,465	PID

Under the REIT legislation the Company's dividends are divided into two components, known as Property Income Distributions ("PID") and non-Property Income Distributions ("Non-PID").

A dividend of 2 pence (£1,628,000) will be paid by 31 December 2012 as a PID.

7 Property, Plant and Equipment

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 1 October 2010	166	38	61	265
Additions	-	-	10	10
At 30 September 2011	166	38	71	275
Additions	1	3	1	5
At 30 September 2012	**167**	**41**	**72**	**280**
Depreciation				
At 1 October 2010	42	15	19	76
Charge for the year	17	4	17	38
At 30 September 2011	59	19	36	114
Charge for the year	17	3	20	40
At 30 September 2012	**76**	**22**	**56**	**154**
Net book value				
At 30 September 2012	**91**	**19**	**16**	**126**
At 30 September 2011	107	19	35	161
At 30 September 2010	124	23	42	189

8 Investment properties

	Total £000
At 1 October 2010	194,079
Additions	5,116
Disposals	(5,241)
Fair value adjustments	(3,843)
At 30 September 2011	190,111
Additions	2,251
Disposals	(2,088)
Fair value adjustments	(12,165)
At 30 September 2012	**178,109**

No investment properties have been identified that meet the criteria of assets held for resale at 30 September 2012 and at 30 September 2011.

The investment properties have all been revalued to their fair value at 30 September 2012.

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 Institute of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgably, prudently and without compulsion.

The remainder of the portfolio has been valued by the directors who have an appropriate recognised professional qualification and recent experience in the location and category of 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 generate rental income.

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

	2012 £000	2011 £000
Portfolio valuation	**177,187**	189,189
Head leases treated as investment properties held under finance leases per IAS 17	**922**	922
Total per Balance Sheet	**178,109**	190,111

9 Investments in jointly controlled entities

The Group has the following investments in jointly controlled entities:

	Country 2012	Ownership 2012	Country 2011	Ownership 2011
Local Parade Investments LLP	UK	20%	UK	20%
Gracechurch Commercial Investments Limited	UK	50%	UK	50%

In the previous year, the Group entered into two joint venture arrangements.

On 26 November 2010 an agreement was entered into with Local Parade Investments LLP, a newly incorporated entity. The initial investment made was £20. The principal activity of the entity is the acquisition and management of retail parades.

On 28 September 2011 an agreement was entered into with Gracechurch Commercial Investments Limited, a newly incorporated entity. The initial investment made was £500,000. The principal activity of the entity is to acquire properties for investment purposes.

	Total £000
Cost	
At 1 October 2010	-
Equity investments	500
Loan advances	1,378
Share of results, net of tax	(55)
Distributions received	-
At 30 September 2011	1,823
Equity investments	-
Loan advances	2,454
Share of results, net of tax	(207)
Distributions received	-
At 30 September 2012	**4,070**

9 Investments in jointly controlled entities (Continued)

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

	2012	2011
	£000	£000
Non-current assets	**8,222**	4,351
Current assets	**1,139**	333
Non-current liabilities	**(4,806)**	(2,594)
Current liabilities	**(485)**	(267)
	4,070	1,823
Represented by:		
Capital	**500**	500
Loans	**3,832**	1,378
Brought forward share of results	**(55)**	-
Share of results, net of tax	**(207)**	(55)
Group's share of net assets	**4,070**	1,823

	2012	2011
	£000	£000
Net rental income	**501**	53
Property expenses	**(117)**	(13)
Administrative expenses	**(55)**	(87)
Change in fair value of investment properties	**(346)**	37
Net interest payable	**(223)**	(32)
Movement in fair value of financial derivatives	**(52)**	(13)
Profit on disposal of investment properties	**112**	-
Tax	**(27)**	-
	(207)	(55)

10 Other investments

On 8 March 2012, the Group entered into a partnership and property advisory agreement with Local Retail Fund GP Limited, a newly incorporated entity. The initial investment made was £45. The principal activity of the entity is the acquisition and management of a diversified portfolio of local retail property in the UK.

	Total £000
Fair value	
At 1 October 2010	-
Additions	-
At 30 September 2011	-
Additions	909
At 30 September 2012	**909**
Impairment losses	
At 1 October 2010	-
Charge for the year	-
At 30 September 2011	-
Charge for the year	-
At 30 September 2012	**-**
Net book value	
At 30 September 2012	**909**
At 30 September 2011	-
At 30 September 2010	-

11 Trade and other receivables

	2012 £000	2011 £000
Trade receivables	**2,915**	2,258
Other receivables	**662**	544
Prepayments	**1,121**	971
	4,698	3,773

12 Interest-bearing loans and borrowings

	2012 £000	2011 £000
Non-current liabilities		
Secured bank loans	**136,929**	131,328
Less: loan arrangement fees	**(549)**	(708)
	136,380	130,620
Current liabilities		
Current portion of secured bank loans	-	-

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. Each loan is repayable in one instalment in 2016.

13 Trade and other payables

	2012 £000	2011 £000
Trade payables	**527**	868
Other taxation and social security	**522**	422
Other payables	**1,004**	1,103
Accruals and deferred income	**3,686**	3,296
	5,739	5,689

Other payables include rent deposits held in respect of commercial tenants of £834,000 (2011: £850,000).

14 Capital and reserves

Share capital

	Ordinary shares		Ordinary shares	
	2012 Number 000	**2012 Value £000**	2011 Number 000	2011 Value £000
Alloted, 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 (2011: 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 (2011: 1,114,089). During the year the EBT transferred no shares (2011: 9,250) to employees on the vesting of awards under the Long Term Incentive Plan. During the year the EBT transferred 17,544 shares (2011: Nil) 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.

15 Derivative financial instruments

Derivative financial instruments held by the Group are interest rate swaps used to manage the Group's interest rate exposure on its variable rate loans. The group also has a fixed rate loan. The interest rate swaps held are shown in the Balance Sheet as follows:

	Fair value 2010 £000	Movements in Income Statement £000	Fair value 2011 £000	**Movements in Income Statement £000**	**Fair value 2012 £000**
Non-current liabilities	(6,746)	(518)	(7,264)	**669**	**(6,595)**
Current liabilities	(2,381)	387	(1,994)	**(453)**	**(2,447)**
Net value	(9,127)		(9,258)		**(9,042)**
Amount charged to Income Statement		(131)		**216**	

At 30 September 2012 and 30 September 2011 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 interest rate swaps and their maturity dates are as follows:

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Fair value 2011 £000	**Movement in Income Statement £000**	**Fair value 2012 £000**
22,978	16 July 2007	31 January 2017	4.85	(3,644)	**22**	**(3,622)**
3,000	22 November 2006	30 April 2013	5.15	(198)	**118**	**(80)**
12,000	06 September 2006	30 April 2013	5.06	(773)	**458**	**(315)**
6,000	08 December 2006	30 April 2013	5.13	(394)	**234**	**(160)**
1,500	09 August 2006	30 April 2013	5.20	(100)	**59**	**(41)**
22,500	30 April 2013	20 July 2016	5.05	(2,346)	**(747)**	**(3,093)**
6,000	25 October 2006	30 April 2013	5.29	(408)	**243**	**(165)**
1,500	30 April 2010	30 April 2013	5.20	(100)	**60**	**(40)**
3,000	11 October 2006	30 April 2013	5.21	(200)	**117**	**(83)**
10,500	30 April 2013	29 July 2016	5.05	(1,095)	**(348)**	**(1,443)**
				(9,258)	**216**	**(9,042)**

The notional value of the £22,978,000 swap amortises at a rate of £200,000 per quarter.

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

The Group does not speculate in financial instruments, it only uses them to limit its exposure to interest rate fluctuations. The Group's policy is to hedge between 60% and 100% of its interest rate exposure. At 30 September 2012 91% of the Group's debt was fixed (2011: 96%).

16 Fair value of financial liabilities

The fair value of the Group's financial liabilities is not considered to be materially different from their book value with the exception of the following fixed rate loan held with Barclays Bank plc. The fixed rate element of the loan has also been valued by JC Rathbone Associates Limited using a discounted cash flow model and published information.

	2012	2011
	£000	£000
Fixed rate loan		
Carrying value of loan	**69,070**	69,033
Fair value	**(81,129)**	(80,728)
Difference	**(12,059)**	(11,695)

17 Obligations under finance leases

Finance lease liabilities on head rents are payable as follows:

	Principal	Interest	Minimum Lease Payment
	£000	£000	£000
At 1 October 2010	8,546	(7,340)	1,206
Disposals	(1,572)	1,288	(284)
(Payments)/charge	(55)	55	-
At 30 September 2011	6,919	(5,997)	922
(Payments)/charge	(55)	55	-
At 30 September 2012	**6,864**	**(5,942)**	**922**

In the above table, interest represents the difference between the carrying amount (minimum lease payment) and the contractual liability / cash flow (principal).

All leases expire in more than five years.

18 Operating lease arrangements

a) As Lessee

Future minimum lease payments payable by the Group under non-cancellable operating leases were as follows:

	Land and Buildings		Plant and Equipment	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Operating leases which expire:				
Within one year	**96**	96	-	6
Two to five years	**384**	384	-	-
Over five years	**24**	120	-	-
	504	600	**-**	6

18 Operating lease arrangements (Continued)

b) As Lessor

Future minimum lease payments receivable by the Group under non-cancellable operating leases were as follows:

	2012	2011
	£000	£000
Operating leases which expire:		
Within one year	**3,861**	3,427
One to two years	**1,296**	1,370
Two to five years	**4,306**	4,096
Over five years	**6,567**	7,345
	16,030	16,238

19 Capital Commitments

At 30 September 2012, the Group had contracted capital expenditure for which no provision has been made in these financial statements of £292,000 (2011: £293,000).

At 30 September 2012, the jointly controlled entities had contracted capital expenditure for which no provision has been made in these financial statements of £64,000 (2011: £2,363,125).

20 Group entities

	Country of Incorporation	**Ownership interest 2012**	2011
Subsidiaries	UK	100%	100%
NOS Limited	UK	100%	100%
NOS 2 Limited	UK	100%	100%
NOS 3 Limited	UK	100%	100%
NOS 4 Limited	UK	100%	100%
NOS 5 Limited	UK	100%	100%
NOS 6 Limited	UK	100%	100%
NOS 8 Limited	UK	100%	100%
NOS Residential Limited	UK	100%	100%
Gilfin Property Holdings Limited	UK	100%	100%
LSR Asset Management Limited	UK	100%	100%
LSR Asset Services Limited	UK	100%	100%
LSR Investment Services Limited	UK	100%	100%
LSR Gresham Investments Limited	UK	100%	100%
LSR Gresham Asset Advisers Limited	UK	100%	100%
Palladium Investments Limited	UK	100%	100%
Jointly controlled entities			
Local Parade Investments LLP	UK	20%	20%
Gracechurch Commercial Investments Limited	UK	50%	50%

All interests are in Ordinary Share capital except for Local Parade Investments LLP where the investment is in Partnership Capital

21 Significant amounts

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. During the year the Company incurred costs of £418,000 in connection with professional advice received regarding the exploration of a potential transaction which was considered by the Company.

22 Non-adjusting subsequent events

Since the year end, the Company has, whilst it goes through its strategic review, suspended its commitment to further funds to all of its joint ventures and investments which has resulted in a breach of the terms of one of its partnership agreements. The partnership agreements permit a number of remedies to the counterparty none of which would give rise to a material impact on the result before tax or net assets.