the **Local Shopping** reit plc

LOCAL PROPERTY EXPERTISE

Annual Report 2009

We are in a

FINANCIALLY STRONG

position with

REAL PROPERTY EXPERTISE & NEW OPPORTUNITIES

OVERVIEW

01 Who We Are
02 LSR at a Glance
04 Chairman's Statement

HOW WE PERFORMED

07 Business Review
11 Financial Review

MANAGEMENT AND GOVERNANCE

14 Key Risks and Uncertainties
15 Corporate and Social Responsibility
17 Board of Directors
18 Directors' Report
20 Corporate Governance
23 Directors' Remuneration Report
27 Statement of Directors' Responsibilities

FINANCIAL STATEMENTS AND NOTES

29 Independent Auditors' Report to the Members of the Local Shopping REIT plc
30 Consolidated Income Statement
30 Consolidated Statement of Recognised Income and Expense
31 Consolidated Balance Sheet
32 Consolidated Statement of Cash Flows
33 Notes to the Financial Statements
54 Company Balance Sheet
55 Notes to the Company Financial Statements
60 Glossary of Terms
61 Shareholder Information

Who We Are

The Local Shopping REIT plc ("LSR") is a major owner of local retail property in the UK, listed on the London Stock Exchange.

Our investment objective is to provide our shareholders with an attractive and growing level of income, with additional capital growth through active asset management.

We were the first specialist start-up Real Estate Investment Trust ("REIT") to launch in the UK and intend to become the leading owner of local retail property in the UK.

Our investment policy is to acquire local shops in urban and suburban areas, investing in neighbourhood and convenience properties throughout the UK. Our portfolio typically comprises shops that are well established in their local communities, although we will invest in new developments of local shops where these are supported by existing or newly built residential property.

The shops trade across all retail planning consents and there is no concentration of risk in a particular retail sector. Our intention is to maintain a high level of diversification. The Company currently has the power under its Articles to borrow up to an amount equal to 75% of gross assets at the time of drawdown.

We believe in sustaining the local trading community nationwide and dealing with all our stakeholders in a fair and open manner.

OPERATIONAL HIGHLIGHTS

- Letting market remains active:
  - 106 new lettings secured generating an annual rental income of £1,127,904 per annum (89 units were let at £1,049,416 per annum during the year ended 30 September 2008)
  - Of the total, 60 were let in the second half, producing rental income of £600,180 per annum
  - Stable void rate since 31 March 2009 decreasing from 11.8% to 11.4% at 30 September 2009
- 164 rent reviews and lease renewals generated a rental increase of £87,599 per annum, an average uplift of 4.6% (5.0% above Market Rent)
- Rental deposits increased to approximately £900,000, or 23% of our quarterly rent roll (30 September 2008: £800,000)
- Eight change of use applications approved and planning consent secured for 39 flats, with the conversion of five units completed after the year end
- 36 properties sold for £7.1m at a blended yield of 7.46%, 15 of which were sold during the second half for £2.8m (March 2009 value: £2.7m)
- 14 properties acquired for £4.3m at a blended yield of 8.17%. These acquisitions were all completed in the second half of the year
- Specialist experience has led, after the year end, to an agreement with a large UK bank to manage a small, mixed retail portfolio in the North-West, and the provision of advice to another UK bank on a number of distressed property situations.

FINANCIAL HIGHLIGHTS

- Market value of portfolio £174.4m (30 September 2008: £202.3m), an increase of 4.8% since 31 March 2009
- Recurring profit* of £2.9m, or 3.5p per share (30 September 2008: £5.1m, 6.1p per share)
- IFRS loss for the year £31.0m (30 September 2008: loss of £40.5m; six months to 31 March 2009: loss of £40.6m)
- Net Asset Value (NAV) of £58.6m or 71p per share (30 September 2008: £93.3m or 112p per share; 31 March 2009: £50.3m or 62p per share)
- Adjusted NAV of £63.9m or 77p per share excluding liabilities arising from derivative financial instruments (30 September 2008: £93.1m or 112p per share)
- Annual rent roll of £15.5m (30 September 2008: £16.1m)
- Prudent debt and financial management:
  - Total net debt of £116.1m, reflecting an LTV of 66.4% and gearing of 188.1%, with no ongoing loan to value default provisions and low interest cover tests
  - The Company has £60m of undrawn facilities, comprising a £25m term loan and a £35m revolving credit facility. Following the year end, the drawdown period on the term loan has been extended until 31 January 2013 providing greater flexibility
  - Debt free properties valued at £42.9m
  - No refinancing due until 2016
- Dividend of 1.8p per share to be paid on 31 December 2009 as a non-PID (normal dividend) to shareholders on the register on 11 December 2009.

* For calculation see page 11.

LSR at a Glance

PORTFOLIO VALUATION

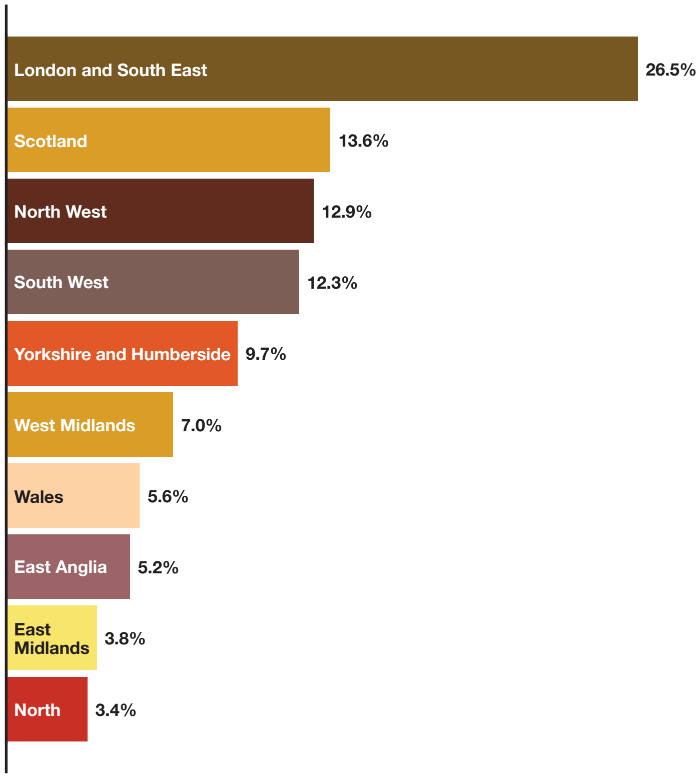
Portfolio Valuation	£174.4m
Total	£174.4m

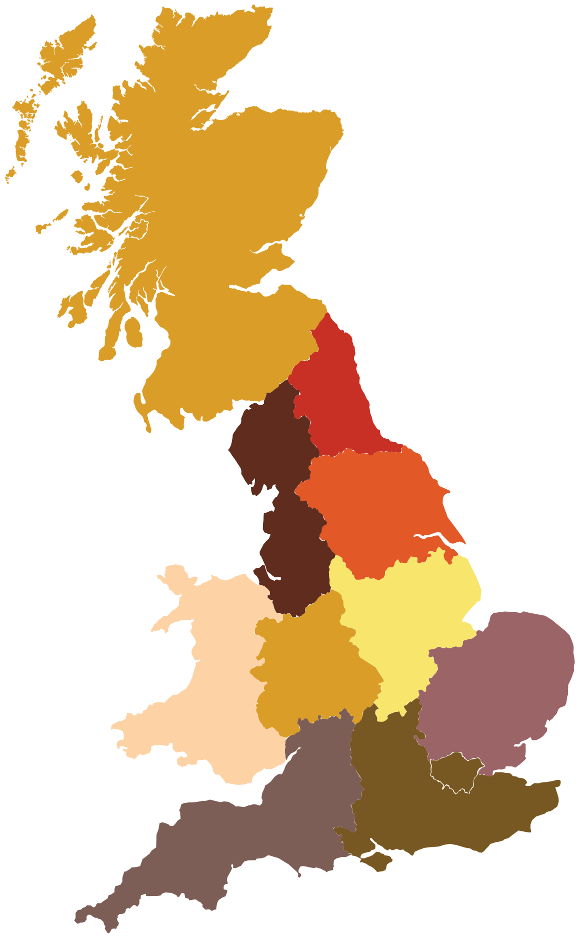
AVERAGE SHOP RENT
£12,127 PA

MEDIAN PROPERTY VALUE
£165,000

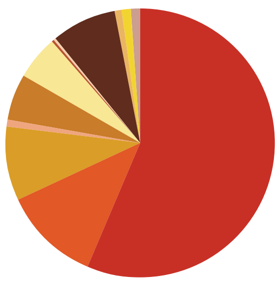
AVERAGE SHOP RENT
£11.45
PER SQ FT

GEOGRAPHIC SPREAD – % OF MARKET RENT



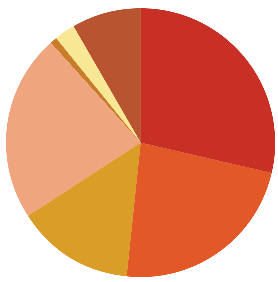


% OF MARKET RENT



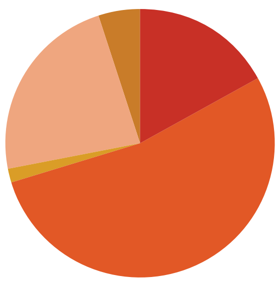
Planning Use

- 56.6% – A1 Shops
- 11.6% – A2 Financial
- 9.0% – A3 Cafes/restaurants
- 0.6% – A4 Pubs
- 5.8% – A5 Takeaways
- 5.1% – B1 Offices
- 0.3% – B2 Industrial
- 0.2% – B8 Storage
- 8.0% – C3 Residential
- 0.7% – D1 Institutional
- 1.1% – D2 Leisure
- 1.0% – Miscellaneous



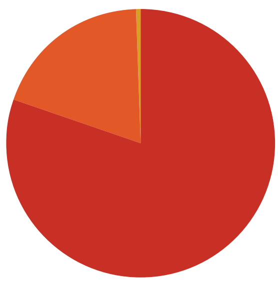
Lease Expiry Profile

- 28.8 % – 0-3 years
- 22.9% – 3-6 years
- 14.4% – 6-9 years
- 22.5% – 9 years +
- 0.7% – Vacant (residential)
- 2.6% – Vacant (deliberate)
- 8.1% – Vacant (commercial)



Tenant Grade

- 17.1% – Local company
- 53.4% – Individual
- 1.6% – Government
- 23.0% – National multiple
- 4.9% – Regional multiple



Tenure

- 80.4% – Freehold/virtual freehold
- 19.2% – Leasehold
- 0.4% – Short leasehold < 50 years

Chairman's Statement

These results demonstrate the resilience of the Company's business model and the benefits of its diversified tenant base and geographic spread. In addition, the current market conditions – while stabilising – have underlined both to property owners and the banks, the benefit of expert management skills to protect and enhance the value of highly specialist assets such as ours.

Grahame Whateley
Chairman

I am pleased to introduce the Company's results covering the 12 months to 30 September 2009.

Introduction

The period under review has again been challenging. The property market suffered a further sharp correction between the end of September 2008 and January 2009, with confidence eroded further by the collapse or near-collapse of a number of "blue-chip" financial institutions. However, as we reported in our half year results to 31 March 2009, low short-term interest rates left cash-rich private investors searching for ways to achieve acceptable returns on their money with the result that, in February, they began to return to the property investment market. Over the following months, the auction rooms remained busy with corresponding success rates and firm prices paid, particularly for smaller (sub-£500,000) assets. The commercial auctions in September and early October 2009 provided evidence that the turnaround in confidence had survived the summer and that, within our sub-sector of the market, yields were stabilising and, in some cases, hardening.

While this is encouraging, we are mindful that debt finance remains scarce and expensive and equity investors only have a finite amount of money available to deploy. We therefore remain cautious in our approach. In addition, many lenders have still to evaluate fully the extent of bad loans within their loan books and adopt a coherent strategy for dealing with these problems. As a result, we have not yet seen large numbers of distressed sales of smaller properties or portfolios, so supply remains limited. We also anticipate that, although only for some properties in our portfolio, there may be further downward pressure on valuations over the coming months, driven more by falling rental values rather than by rising yields.

The investment market is showing signs of life, although it is clear that the occupier market throughout much of the UK is struggling to cope with the severe downturn in the economy. Rising unemployment and fragile consumer confidence will hinder a major recovery or restoration of a healthy letting market across the commercial property market in general. However, despite these challenging conditions, I am pleased to report that our diverse tenant base of smaller, independent traders continues to perform relatively well, particularly where their trade relies on non-discretionary spend and everyday items. While we have seen an increase in tenant default within the portfolio, our asset managers are working hard to re-let vacancies or identify alternative uses for vacant space. Their success has resulted in the void rate stabilising over the year and, encouragingly, there has been a small decline over the last few months of the year from 11.8% at 31 March 2009 to 11.4% at 30 September 2009.

Asset Management

Predictably, given the current market conditions, it is proving more difficult to grow rents at rent review and lease renewal. In spite of this, our rents remain affordable, at an average shop rent of £12,127 per annum (£11.45 per sq ft) and we are not required to provide the long rent-free periods and capital contributions to tenants that are now commonplace in shopping centres and on the traditional high street. This helps us to sustain rental values when we are letting vacant units and ensures that our income stream remains regular and predictable.

Our nationwide coverage, extensive network of local agents and specialist "hands-on" asset management skills provide us with a unique capability to manage smaller lot-sized properties throughout the UK. Over the coming months we hope to use these skills to help other businesses manage portfolios of smaller assets where they may not possess the relevant skill sets or experience in-house.

Since the year end, I am pleased to report we have been asked by a large UK bank to manage a small, mixed portfolio in the North-West for a fee, and are advising another UK bank on a number of distressed property situations. We hope to build on this progress over the coming months as the banks finalise their individual approaches to dealing with problem loans. Some of the solutions may involve us investing our own money, particularly into capital expenditure to enhance or protect the value of distressed assets through active management. We believe that such distressed situations may provide an opportunity to generate substantial returns for our shareholders and, with this in mind, we intend to deploy our financial firepower cautiously over the coming months.

Board Changes

During the year, Andrew Cunningham resigned from the LSR Board. Andrew made a strong contribution towards the successful flotation of the Company in May 2007 and his advice has been invaluable in subsequently steering it through the recent economic turmoil. We thank him for his help and wish him well for the future as the Chief Executive of Grainger plc. Following Andrew's resignation, we were delighted to welcome Stephen East to the Board as Non-Executive Director. Stephen was the Finance Director of Woolworths Group plc from 2005 to 2008, responsible for the overall finance function of the Group and a member of its retail business' executive committee, with specific responsibility for its finance and property functions. Prior to that, he worked at MEPC plc, where he held the position of Finance Director of MEPC from 1999 to 2003. His deep knowledge and experience of the retail and property sectors will be of enormous benefit to LSR during this next exciting stage in the Company's evolution.

Dividend

I am pleased to announce a dividend of 1.8p per share, which is in line with our policy to pay out 100% of recurring profits earned over the year. The dividend will be paid on 31 December 2009 as a non-PID (normal dividend) to shareholders on the register on 11 December 2009. This will take the total dividend paid for the year to 3.5p per share.

Outlook

Despite challenging trading conditions, our business model, with its diversified tenant base, continues to perform well, with our occupancy rate stable and our letting market proving resilient. In the investment market we believe we have seen the end of the sustained collapse in values but intend to maintain our cautious approach in evaluating future investments. Following a programme of sales in the early part of the period we have been able to redeploy the proceeds into a number of interesting accretive acquisitions over recent months.

As described above, we believe the greatest investment opportunity over the next few years will be made from investing in distressed situations and therefore plan to use our capital wisely over the coming months. As a business we have continued to adapt our strategy over the past year and respond quickly to changing market conditions. As a result of our focus on unlocking and extracting maximum levels of value from our assets and recycling our ex-growth stock, the Company continues to maintain a strong financial position, which provides us with confidence that we are ready to act on opportunities as they present themselves and that we will deliver on our goal of creating shareholder value in the future.

Grahame Whateley
Chairman
24 December 2009

Our decision to stop purchasing and concentrate on

ASSET MANAGEMENT

is beginning to produce good returns

Business Review

Mike Riley
Joint CEO

Nick Gregory
Joint CEO

Our success will be based upon the effective execution of our strategy and preparing the business for growth, to be achieved through individual property purchases; portfolio or corporate acquisitions; creating joint ventures; and securing distressed asset management opportunities.

Despite some improvement in the investment market towards the end of the period, we have observed a prolonged downturn in the UK property market over the year. In the review below, as well as commenting on changes over the last 12 months, we also make comment, where appropriate, on changes since the portfolio was last valued on 31 March 2009.

Results

During the year the Company made a recurring profit of £2.9m (3.5p per share), the calculation of which is provided in the Financial Review on page 11. In common with other real estate companies, we have been affected by a fall in the value of our portfolio. In addition, the fall in interest rates between 30 September 2008 and 30 September 2009 resulted in a loss on the fair value of our swap agreements. These factors combined have resulted in an IFRS loss of £31.0m. We have disclosed these amounts separately on the face of the Income Statement to show more clearly the result from the operating business.

Revaluation and Net Asset Value

As at 30 September 2009, the portfolio was revalued at £174.4m, a fall of £27.9m from the £202.3m portfolio valuation at 30 September 2008. On a like-for-like basis the portfolio fell in value by 13.2% over the year. However, while there was a fall in value of 17.1% over the first half, we are encouraged to report that the portfolio subsequently rose in value by 4.8% over the second half of the year.

Our net asset value per share has fallen to 71p per share compared to 112p at 30 September 2008. This is largely due to the fall in property values and loss on our swap agreements, described above. However, the impact of this fall has been partially offset by the share buybacks at an average price of 33p per share executed in January 2009, which improved net asset value by 1p per share. The adjusted net asset value per share (adjusted for the fair value of the swap agreements) has fallen to 77p per share compared to 112p in 2008.

Portfolio Performance

Our portfolio was revalued at the year end at £174.4m, reflecting an equivalent yield (excluding residential element) of 9.47%. It now comprises 627 properties, with 1,976 letting units, and produces annual rental income of £15.5m.

PORTFOLIO YEAR ON YEAR

Portfolio Value	2009	£174.4m
	2008	£202.3m
	2007	£249.3m
Rent Roll	2009	£15.5m
	2008	£16.1m
	2007	£17.1m
Number of Properties	2009	627
	2008	641
	2007	632
Number of Tenants	2009	1,976
	2008	2,009
	2007	1,976

PORTFOLIO

Value	£174.4m
Initial yield	8.43%
Reversionary yield	9.35%
Equivalent yield*	9.47%
Rent per annum	£15.5m
Market rent per annum	£17.2m
Commercial value	£159.4m
Residential value	£15.0m

Value Range	No. of Properties	Value £m	Equivalent Yield*
£0 – £100k	148	11.0	9.74%
£101 – £200k	233	34.2	9.43%
£201 – £500k	157	51.8	9.32%
£501k – £1m	68	45.6	9.57%
£1m – £3m	20	28.7	9.76%
£3m +	1	3.1	7.46%
Total	**627**	**174.4**	**9.47%**

* Excluding residential element.

Business Review continued

The table on the previous page illustrates the range of property values throughout the portfolio. The average property value is £0.278m and the median is £0.165m. The atypical yield in the table relates to our only property valued at more than £3m, a neighbourhood centre located in St Helens, Merseyside. During the year a vacant unit let to Somerfield until 2027 was assigned to Tesco, which is now trading and accounts for approximately half of the scheme's total rent roll. The lower-than-average equivalent yield on this property reflects the growing investor appetite for secure income on long leases.

The residential element of the portfolio has been valued at £15.0m, based on 80-85% of vacant possession value (the higher discount applying to properties containing multiple residential units). This represents a fall of 8.5% over the year. The average value of the residential units in our portfolio is just over £51,000.

On a like-for-like basis, the properties owned throughout the year recorded a fall in value of 13.2%, making allowance for properties where LSR sold off portions of the asset, with the equivalent yield (excluding the residential element) moving out 104bps to 9.56%. Following a fall of 17.1% in the first half of the year, values rose over the second half as cash rich, private investors seeking yields began to drive up the price of smaller retail properties. Between 31 March 2009 and 30 September 2009 the portfolio rose in value by 4.8%, with the equivalent yield (excluding the residential element) moving in 66bps from 10.22%.

LIKE-FOR-LIKE PORTFOLIO – ADJUSTED FOR PART SALES

	30 September 2009	30 September 2008	Change
Value	£169.2m	£195.1m	-13.24%
Initial yield	8.48%	7.57%	+0.91%
Reversionary yield	9.41%	8.48%	+0.93%
Equivalent yield*	9.56%	8.52%	+1.04%
Rent per annum	£15.2m	£15.8m	-3.64%
Market rent per annum	£16.9m	£17.7m	-4.44%
Commercial value	£154.3m	£178.8m	-13.68%
Residential value	£14.9m	£16.3m	-8.45%

* Excluding residential element.

Over the year the portfolio market rent has fallen by 4.4%, with our larger units sustaining the greatest declines. The passing rent has fallen 3.6% on a like-for-like basis, which is largely due to the increase in the portfolio void rate over the period, although this has declined since 31 March 2009. There was an improvement during the second half, with the like-for-like market rent falling by 1.2% and passing rent falling only marginally, by 0.8%.

Investment Market

The general property market encountered a severe downturn in values between September 2008 and January 2009, with investor confidence badly dented by the collapse of Lehman Brothers and its aftermath. However, as the year progressed, low interest rates have forced cash rich private investors to look for different methods of achieving meaningful returns on their money and, as stated above, in February they returned to the property investment market.

Towards the end of the year, the commercial auction houses have seen increasing success rates and firmer prices reflecting the rising demand for smaller and, in particular, retail properties. The auctions in September/early October 2009 provided further evidence of stabilising, and in many cases rising values. With the majority of lenders appearing to be seeking longer term solutions to their problem loans we have not to date seen large numbers of distressed sales of smaller properties which has kept supply relatively tight. While supply is beginning to increase on the back of stable/rising prices, stock remains limited. During 2006 and 2007 we reviewed potential investment opportunities at a rate of £56m and £45m per month respectively. During the first six months of 2009 this rate fell to £7m per month, although it has risen to average £15m per month between June and October 2009.

Acquisitions and Sales

During the first half of the year, when the market was falling rapidly, we focused our effort on sales of ex-growth properties, with the intention of selling ahead of the falling market to provide us with both flexibility and the funds to reinvest at a future date. During the second half of the year, we began to see value emerge and took the opportunity to reinvest the sales proceeds into a number of accretive acquisitions. Accordingly, whilst no properties were purchased during the first half of the year, since 31 March 2009 we have acquired 14 properties for a total consideration of £4.3m at a blended yield of 8.17%.

Our most significant acquisition was the purchase, in June 2009, of 10 shops in a £3.5m sale and leaseback deal with Coral Bookmakers. The properties provide us with some useful asset management opportunities and are readily saleable. They were acquired on new 15-year leases with guaranteed rental uplifts at the first rent review at a net initial yield of 7.75%. Encouragingly, Coral sold a similar package of six properties, let on identical lease terms, at an Allsop auction on 7 July 2009 for an average net initial yield of 5.81%. Our shops were valued by Allsop as at 30 September 2009 at £4.3m on a 6.33% net initial yield. The transaction demonstrates our ability to generate value from acquisitions using our network of contacts and our reputation for rapid and straightforward deal execution.

While we continue to seek out further accretive acquisition opportunities, we have not purchased any properties since the year end.

We are pleased to report that we were able to make solid progress with our stated strategy of selling ex-growth properties, particularly during the first half of the year given the extremely difficult investment market. During the year, we sold 36 properties for £7.1m at an average yield of 7.46%, well below the prevailing yield on the portfolio. Fifteen of these properties were sold during the second half of the year for a total of £2.8m and at an average yield of 7.62%, showing a £0.1m surplus over the 31 March 2009 valuation.

Since the year end, we have completed the sale of a further six properties for £2.0m at an average yield of 7.92%, in line with their September 2009 valuation. Over the coming year we intend to sell further properties, but are mindful of the difficulty in reinvesting the sales proceeds in a market with limited supply.

Occupier Market

There is no doubt that retailers are struggling to cope with the severe downturn in the economy. However, our tenants, 70.5% of whom are local independent traders, have the flexibility to deal with these challenging conditions. Many of their businesses rely on non-discretionary spend and they appear to be holding up as well as, if not better than, many of the more well-known retailers based in shopping centres and the traditional high street. Despite the difficult economic climate, we believe that our rents remain affordable, which is demonstrated by our continuing success in letting vacant units. As stated above, our average shop rent is only £11.45 per sq ft, or £12,127 per annum (£233 per week).

As at 30 September 2009, our overall void rate was 11.4%, up from 10.6% in September 2008 but encouragingly below the 11.8% reported in January, March and July 2009.

KEY PERFORMANCE INDICATOR – VOID RATE

	30 September 2009	31 July 2009	31 March 2009	31 January 2009	30 September 2008
Vacant – Commercial	8.1%	8.4%	8.1%	8.2%	6.9%
Vacant – Deliberate	2.6%	2.6%	2.6%	2.6%	2.3%
Vacant – Residential	0.7%	0.8%	1.1%	1.0%	1.4%
Total	**11.4%**	**11.8%**	**11.8%**	**11.8%**	**10.6%**

The void rate for our commercial properties, at 8.1% at the year end, has been broadly stable since 31 January 2009. However, over the 12-month period it is up from the 6.9% reported in September 2008, largely due to increased tenant default in a deteriorating economic climate. The three largest commercial voids on 30 September 2009 were at Dorking (market rent £35,000 per annum), Kidderminster (£35,000 per annum) and Shipley (£32,500 per annum). At Dorking, we are investigating the potential for converting the first floor ancillary space into two flats. At Kidderminster, the unit has been occupied since March 2009 by a temporary trader on an inclusive rent. This covers our void costs but, for reporting purposes, we believe the unit should be treated as vacant. At Shipley, we have recently completed a light refurbishment of vacant office space above our shops and are now offering this in small suites.

Over the year we increased the level of deliberate voids from 2.3% to 2.6%, as we continue to seek out opportunities for change of use and to reconfigure units to secure increased rents or improve marketability.

At 30 September 2009 the residential void was 0.7%. This is a significant improvement on the 1.4% reported as at 30 September 2008 and reflects the growing expertise our asset managers are gaining in the refurbishment and letting of residential units.

During the year we, in common with others in the industry, have seen an increase in bad debts, reflecting one of the worst recessions on record in the UK. As a result, the bad debt impairment loss in the year rose to £1,043,297 (30 September 2008: £734,489). We continue to take a robust approach to debt recovery and generally prefer to take back units where tenants are in financial difficulty so we can re-let them and improve the quality of our cashflow. 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 difficult. Similarly, we are taking a pragmatic approach to letting our more difficult vacant units in order to mitigate any increase in voids and associated costs.

When we let units to independent tenants, it is our policy to seek rent deposits of between three to six months. Over the year we have successfully increased the number and value of deposits held as we let units and deal with assignments. As at 30 September 2009, we held deposits totalling approximately £900,000 (30 September 2008: £800,000) or just over 23% 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

The Company has a unique asset management capability and is able to add value expertly to a large portfolio of smaller commercial properties located throughout the UK. We are pleased to report that we continue to achieve strong results by applying these skills to our diverse portfolio.

Despite the challenging economic climate, demand for local shops remains resilient. During the year to 30 September 2009, the Company has let 106 vacant commercial units at a total rent of £1,127,904 per annum (compared to 89 units let at £1,049,416 per annum during the previous year). Encouragingly, 60 of these units were let during the second half of the year at a total rent of £600,180 per annum. Over the full year the units were let, on average, at 2.2% below Market Rent. However, 18 of these new lettings incorporated stepped rent increases, which we have ignored in our comparison. These 18 lettings were at an initial rent of £180,580 per annum rising to £217,500 per annum over the first three years of their leases, compared with a Market Rent of £212,320 per annum. The remaining 88 units were let at a small 0.7% premium to Market Rent. With our individual tenants typically of limited financial standing we prefer to deal with letting incentives by way of these stepped rents, rather than by granting tenants protracted rent-free periods. Our average rent-free period on lettings completed during the year was only 56 days, in line with an average of 51 days during the previous financial year.

Current market conditions make it more difficult to grow rents at rent review and lease renewal. However, over the year, rent reviews on 131 units increased rental income by a total of £67,989 per annum, reflecting an average uplift of 4.1%, and 5.4% above Market Rent. Lease renewals on 33 units have added a further £19,610 of rental income per annum (an average uplift of 8.0%, and 2.6% above Market Rent) and a lease extension on a flat in London secured a £26,000 premium from the tenant. In addition, we have surrendered and re-let 12 units, which resulted in a fall in rent of £27,140 per annum (an average fall of 8.75%, and 7.39% below Market Rent). This latter result was heavily skewed by two pragmatic deals we did with national multiple retailers where we were faced with potentially prolonged voids and associated costs had we not accepted a combined rental reduction of £31,850 per

Business Review continued

annum over the previous rent. For situations such as this, with very specific circumstances, we believe it to be more prudent to allow a tenant to remain in occupation on reduced terms, rather than address void costs and empty rates.

In line with our strategy to deliver value from the under-used upper parts of our shops, or unused adjacent land, we have secured planning consents for 39 flats, including a seven-flat development on unused former gardens to the rear of a parade we own in Uckfield. We intend to build out a number of these over the coming months where we can achieve an acceptable rental yield following conversion. After the year end, the first such conversion was completed in Braintree where five flats, with a rental value of £33,000 per annum, have been built within a former office unit which had a rental value of £11,600 per annum. We are nearing completion of a five-flat conversion in Exmouth and have additionally created six flats in Epsom and Tewkesbury out of existing retail space where planning consent was not required. These have now been let at a combined rent of £28,920 per annum. Over the year, we also secured a number of change of use consents which make it easier for us to let vacant units: one unit was changed from A1 (shops) to A3 (restaurant/café), five units to A5 (hot food take-away) and three units to D1 (Institutional).

It has been well documented that, following the sustained collapse in UK property values, most lenders are still assessing their problem loans and developing their strategy for dealing with problems. In the property investment bull run leading up to the collapse in values, a number of market participants forgot that property was a physical as well as a financial asset. Our business model, encompassing nationwide coverage, an extensive network of local agents and our intensive and specialist asset management skills make us uniquely placed to deal with the physical as well as financial aspects of managing smaller lot-sized properties throughout the UK. Over the coming months we hope to be able to use these valuable skills to help lenders manage their distressed portfolios of smaller assets. As described above, since the year end, we have been asked by a large UK bank to manage a small mixed portfolio in the North-West for a fee, and are advising another UK bank on a number of distressed property situations. We hope to build on this progress over the coming months as lenders finalise their individual approaches to dealing with problem loans.

Business Outlook

We believe that values in our sub-sector bottomed out between March and June 2009. However, debt finance remains both scarce and expensive and equity investors only have a finite amount of money. In addition, the vast majority of lenders have still to fully evaluate the extent of bad loans within their loan books and work out how they intend to deal with problems. As a result, we have not seen large numbers of distressed sales of smaller properties and/or portfolios, so supply remains very limited. We also anticipate that, for some properties, there may be further downward pressure on valuations over the coming months, though driven more by falling rental values rather than by rising yields. Accordingly, whilst we believe values as a whole have bottomed out, we therefore remain cautious in our outlook for the investment market.

Despite the positive signals emerging from the investment market we are under no illusion that trading conditions remain tough for our tenants. However, their entrepreneurial drive and ability to be flexible in adapting their business plans has allowed them to react to the challenging retail environment. As a result our diverse tenant base of smaller, independent traders continues to perform relatively well, particularly where their trade relies on non-discretionary spend. Against this backdrop, our highly active approach to managing the portfolio will allow us to monitor and deal with any difficulties faced by our tenants, and we will continue to adopt a flexible and proactive approach to lettings, which will help us maintain our income.

Our active programme of sales has impacted our earnings during the period, with the Company receiving less rental income, while lower interest rates have also reduced our interest income on our cash balances. Our earnings have also been adversely affected by an increase in the cost of our excess hedging resulting from lower interest rates. Our cash, uncharged properties and newly extended £60m undrawn loan facility gives us the flexibility and firepower to take advantage of the accretive buying opportunities that will emerge as liquidity returns to the market. Such acquisitions would have an immediate positive impact on our earnings, and our network of acquisition agents is currently assessing the market for investment opportunities.

Our future success will therefore be based upon the continuing effective execution of our strategy:

- To optimise the value of and income from existing assets and recycle ex-growth properties.
- To prepare the business for growth, which will be achieved by:
  - individual property purchases;
  - portfolio or corporate acquisitions,
  - the creation of joint ventures; and
  - distressed asset management.

Partnerships

Our network of national, regional and local agents remains key 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 over the past year.

Mike Riley & Nick Gregory
Joint Chief Executive Officers
24 December 2009

Financial Review

Victoria Whitehouse
Finance Director

This report is prepared in accordance with International Financial Reporting Standards (IFRS). No new IFRSs have become effective during the year which have materially impacted on the results of the Group.

Key Performance Indicators

In addition to specific measures used to monitor the property portfolio, the following key performance indicators are used by the directors to review the performance of the business and to ensure compliance with banking covenants:

KEY PERFORMANCE INDICATORS

	30 September 2009	30 September 2008
Interest cover*	214%	278%
Loan to value ratio**	66.4%	56.3%
Adjusted NAV per share***	77p****	112p****
Gearing (net of cash held)	188.1%	116.1%

* Based on rental income compared to interest payable.
** Net of cash held on substitution to buy properties.
*** Based on 82,505,853 shares in issue at 30 September 2009 (2008: 83,110,853).
**** Adjusted to exclude the fair value of financial derivative instruments.

Recurring Profit

The recurring profit for the year is £2.9m (2008: £5.1m). This has been calculated in the same way as in 2008 and the adjustments made to the reported IFRS loss are as follows:

	30 September 2009 £000	30 September 2008 £000
Loss before tax	(30,997)	(40,470)
Movement in fair value of portfolio	28,275	44,358
Movement in fair value of swaps	5,578	1,347
Profit on sale of swaps	–	(229)
Profit on sale of investment properties	(3)	(48)
Abortive purchase costs	–	98
Recurring profit	**2,853**	**5,056**

As described in previous Reports, it is the Group's policy to pay 100% of recurring profits as a dividend. The recurring profit per share is 3.5p (2008: 6.1p). A dividend has been proposed by the directors of 1.8p per share (2008: 2.875p per share) for payment on 31 December 2009 to shareholders on the register at 11 December 2009. This dividend will be paid as a non-PID.

An interim divided was paid on 30 June 2009 of 1.7p per share, as a Property Income Dividend (PID), as advised in the 2009 Half Year Report.

Therefore, the total dividend for the year will be 3.5p (2008: 5.75p per share). As in previous years, the Employee Benefit Trust will waive its right to a dividend.

Trading Results

During the year, recurring profits have fallen as expected due to the economic climate that has been experienced in the last 12 months and the significant fall in interest rates. The results have been impacted, as noted at the Half Year, by a combination of: falling rental income mainly from sales, increased property operating costs and interest payable, due to the over hedged position and a fall in interest income.

Rents received have reduced as a result of the sales completed during the year and the increase in the overall void rate throughout the year.

Property operating expenses are 18.9% of rental income in the current year compared to 15.7% in the previous year. These costs include: legal and agents' fees incurred in asset management activities, managing agents' fees, void costs incurred on empty properties and bad debts. These costs are higher than in the previous year as a result of higher asset management fees and an increase in bad debts. There has been a reduction in void costs as a result of the benefit of the empty rates relief on smaller properties which was introduced from 1 April 2009. The fees paid to the managing agents have also fallen as rents received have decreased. These two benefits have helped to mitigate the impact of the other increased costs.

Administrative expenses have fallen by 10.2% during the year as a result of the reduction in staff numbers, lower office costs following the move in 2008 and lower legal and professional fees.

Interest received on the cash held during the year has fallen significantly to £58,000 compared to £311,000 in the previous year. This is as a result of the major decrease in interest rates offered by the banks on cash deposits. As reported at the Half Year, this has a significant impact on the results given the over hedged position. In the previous year additional financing income of £229,000 was recorded following the sale of £21m of interest rate swaps held in excess of the debt drawn down when five-year money rates were over 6%. No such sales have taken place in the current year.

The Group uses interest rate swaps to economically hedge the interest rate exposure on the Group's HSBC loan. The Group has remained over hedged by £10.5m at the year end (2008: £11.3m). The over hedged position arose from the decision not to buy properties when values were falling. Interest rate swaps were retained after debt was repaid on the flotation of the Company as it was anticipated that debt would quickly be drawn down to fund property acquisitions. The over hedged position has resulted in an increased interest charge once interest rates fell below the contracted rates earlier in the year. The cost of this over hedging

Financial Review continued

for the year was £210,000 compared to an income of £195,000 in the previous year. An element of the interest rate swaps amortise at a rate of £200,000 per quarter, hence the reduction in the over hedged amount during the year.

The fair value of these swaps has fallen significantly compared to the prior year resulting in an expense of £5.6m (2008: £1.3m). As none of the swaps held qualified as effective swaps for hedge accounting under the criteria set out in IAS 39 these losses have been recognised in the Income Statement.

Net Assets

The net asset value per share has fallen to 71p (2008: 112p). This fall is predominantly as a result of the fall in value of the property portfolio during the first half of the year. The fall in interest rates has also decreased the value of the interest rate swaps used to hedge the Group's interest rate exposure compared to 2008, however, the value has increased since the Half Year.

The fair value of the properties owned has fallen at the year end by £28.3m (2008: £44.4m). However, the fall to the Half Year was £35.3m with the portfolio increasing in value in the second half of the year by £7m. The fall in value has been included in the Income Statement as required by IFRS. In accordance with the Group's accounting policy, at the half year and year end, 25% of the portfolio, together with all new purchases over the year have been valued by an independent professional firm and the remainder of the portfolio has been valued by the directors who have appropriate qualifications and knowledge of the market to complete the valuation.

At the year end the interest rate swaps have been valued as a liability of £5.3m (2008: asset of £240,000). However, at the Half Year they were valued at a £6.7m liability so have improved since then.

Bank Facilities

During the year the Group has drawn down no new debt. It has continued to operate with a fixed rate loan from Barclays of £69.2m and a fully hedged variable rate loan of £47.7m from HSBC. The companies party to each loan agreement have no loan-to-value default provisions to satisfy. The covenants contained with the facility agreements relate to actual and forecast interest cover.

In 2008 a new facility of £60m with HSBC was negotiated. None of this facility has been drawn down to date. The facility comprises of a £35m revolving loan and a £25m fixed term loan. The term loan had a draw down deadline of 4 September 2009 which was subsequently extended to 4 December 2009, after which the facility would expire.

Since the year end this draw down period has been renegotiated and extended to 31 January 2013. To facilitate this extension it has been necessary to accept higher interest rates and increased non-utilisation fees. The interest rates have increased at the lowest loan to value ratio from 80 basis points over LIBOR to 120 basis points, with increases as the LTV's increase up to a final rate of 160 basis points once the LTV exceeds 70%. The non-utilisation fee has increased from 30 basis points rising to 60 basis points in 2010. In addition, a loan to value covenant of 85% for the term of the facility to 2016 has been agreed; previously the covenant was only applicable during the draw down period. We consider this facility to be very favourable compared to current market pricing.

The Group continues to hold properties with a value of £42.9m (2008: £55.2m) which have no debt drawn down against them. These properties are available for use by the Group, which together with the extended facilities above, give flexibility to exploit opportunities which become available in the future.

Taxation

The Group has continued to operate as a REIT throughout the year. Therefore, any profits and gains from investment properties arising during the year should be exempt from corporation tax provided certain conditions are met.

In accordance with the REIT legislation the Group is required to analyse its business, for tax purposes, between its property rental business and other activities. The majority of rental income qualifies under the REIT rules as being derived from the property rental business and the directors do not consider that the Group operates any other type of business. Corporation tax remains payable on any interest income earned to the extent that losses from the residual business are not available to offset this. The Group does not expect to pay any significant amounts of corporation tax on any of its property rental business.

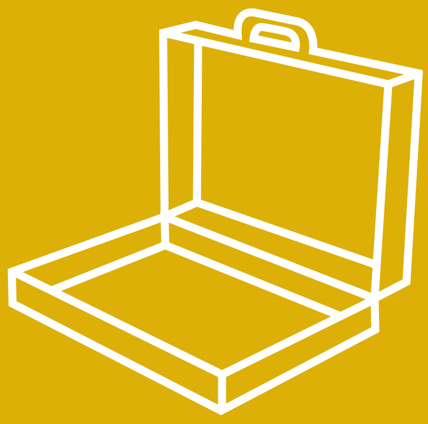
Share Buy Backs

During the year, the Company has purchased 630,000 (2008: 14,855,005) shares at an average price of 33.0p (2008: 82.1p.) It was necessary to cancel 675,000 (2008: 8,147,920) shares during the year and 25,000 shares (2008: 456,818) were transferred to the Company's Employee Benefit Trust (EBT). At the year end 9,164,017 shares (2008: 9,234,017) were held in Treasury. During the year no shares were transferred from Treasury to the EBT (2008: 30,000,). This has resulted in the EBT holding 1,123,339 (2008: 1,098,339) shares at the year end. As in the previous year the EBT will waive the dividend due on these shares and they are shown as a debit to reserves.

Victoria Whitehouse
Finance Director
24 December 2009

With a

PORTFOLIO



RESILIENCE

of smaller units around the country

Key Risks and Uncertainties

The directors have ultimate responsibility for identifying key risks to the business and identifying their potential and likely impact. The following have been identified as key risk areas:

- the UK's overall economic environment and significant changes in national or local economic conditions;
- interest rates, business taxes, the availability of finance and other factors affecting occupational demand;
- the continued availability of financing at economic rates to fund the Group's acquisitions and development programmes;
- protracted and/or deepening turbulence in the UK banking and finance sector;
- unforeseen changes in planning policy in UK localities;
- the legal environment and changes in legislation, central and local governmental rules and policies;
- non-compliance with the REIT regime, resulting in loss of REIT status;
- individual tenant defaults;
- the continued availability of key personnel and the skills of the Group's property managers, agents and advisers;
- risks to the Group's reputation for ethical business practice;
- physical risks to properties and the continued availability of insurance cover with appropriate coverage at economic rates;
- market-led f uctuations in property values, impacting on the value of the Group's investments and its ability to continue to acquire properties at advantageous prices;
- unforeseen increases in property costs including construction, maintenance and repairs;
- local market f uctuations, resulting in rent reviews not achieving anticipated values;
- competition from other property investors and entrants to the market; and
- health, safety and environmental issues.

The executive directors consider and evaluate key risk areas on a continuous basis. Separate meetings are held each month with relevant members of the Company's operational management team to consider operational and asset management issues as well as development initiatives and refurbishment projects. The Audit Committee is responsible for reviewing the Company's approach to risk management and the safeguards in place. Significant items are discussed at Board meetings and the executive directors are in regular communication with the non-executive directors outside formal Board meetings to discuss key performance and risk aspects.

Within this framework, the following approaches to mitigate these risks and uncertainties are in place:

- the directors and their advisers constantly monitor the property and financial markets and the wider business environment;
- the Company has the ability to f ex its property acquisition and disposal plans to take account of economic trends;
- the Company's funding facilities are f exible, long term, low cost and economically hedged;
- the directors monitor gearing levels to ensure they are maintained at a prudent level;
- the Company's management systems and outsourced operational approach are aimed at maximising efficiency whilst minimising overheads and long-term liabilities;
- the directors regularly review the Company's performance against the REIT regime requirements;
- the Company and its agents keep in close touch with tenants, monitoring the potential for default and taking appropriate action at an early stage;
- the Company's staff and its agents monitor the physical condition of properties to identify potential repair issues, implementing repair and preventative maintenance programmes as necessary;
- a formal sign-off process is in place for capital and significant non-recurring expenditure items within which the justification for expenditure is reviewed against predicted benefits; and
- the directors receive reports on health, safety and environmental issues at each Board meeting.

Corporate and Social Responsibility

We recognise that the success of our business is primarily dependent on:

- the talent and commitment of our employees;
- our partnerships with national and local advisers; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

These factors are fully taken into account at Board level and throughout the management of the business and are ref ected in all our activities.

We recognise the importance of the effective management of health and safety and environmental considerations in relation to our workforce, partners, tenants and the local community.

Employees

With a relatively small workforce, we rely on constant and effective communication throughout the business. Regular meetings are held to review portfolio performance, investments and disposals, specific property issues and development initiatives. The importance of a two-way f ow of information is firmly embedded in our culture and our employees are consulted on market conditions and investment strategy, as well as being informed of the Company's progress and plans.

Our employee reward policies are designed to enable us to attract and retain the skills we need to run a highly effective operation and, in particular, to recognise excellent contribution and generally align rewards to the success of the business.

We have in place firm anti-discrimination policies and we are also committed to the development of our people wherever appropriate.

We support our staff in the development of their knowledge and skills, including attendance of formal education and training events.

Health, Safety and Welfare

We believe that the health, safety and welfare of our employees is superior to all other considerations. We recognise the particular risks faced by our staff when visiting remote sites. Our staff are made fully aware of the guidelines which they are expected to adhere to for their own safety in such situations, in the knowledge that their welfare is the overriding consideration. The Company's health and safety record is considered at all the Board's regular meetings.

In managing our properties, we take proper account of the welfare considerations of their occupants. Our property managers and contractors are required to ensure that all maintenance, repair and development works conform to relevant regulations. We undertake regular checks of gas and electrical installations within the residential elements of our portfolio in conformance with regulatory requirements, addressing reported items and maintaining an ongoing programme of improvement works.

Business Ethics

Our ability to operate successfully in our market is largely dependent on the maintenance of our straight-forward approach to doing business and our reputation for integrity. We therefore require our employees and those who act on our behalf to behave and transact business in accordance with the highest professional standards. This includes complying with the regulations of any professional body to which they are affiliated. These requirements apply equally to dealings with third parties, professional advisers and tenants.

The Company has in place internal procedures enforcing the Model Code, Anti-money Laundering regulations, and the Data Protection Act, as well as customer care and external complaint guidelines. A "whistle blowing" procedure is in place, enabling employees to notify perceived irregularities to members of the Board. Whilst such matters would ordinarily be reported through the Company Secretary, employees may also raise any concerns directly with an independent non-executive director.

Partnerships

Critical to our business model is the continued development of effective partnerships at a local and national level. Such alliances include:

- property sales and acquisition agents covering each locality in the UK;
- regional and local property managers;
- regional teams of property valuers;
- highly responsive arrangements with selected funding banks;
- legal advisers and support teams;
- local architects, planning consultants, project managers and quantity surveyors; and
- regional property maintenance and construction teams.

These teams are complemented by the valuable input of our corporate finance, taxation and legal advisers, as well as the support provided by our marketing, public relations and IT and communications consultants.

The well-being of these relationships is crucial to the success of our business. We therefore place considerable importance on our ongoing communications programme to ensure that our partners are kept aware of our progress and plans.

Community Involvement

We are aware that the success of our business model is to a major extent dependent on the prosperity of our tenants and the local communities in which they operate. We aim to attract and retain tenants by providing retail accommodation appropriate to their needs at a price that is affordable and in line with the local market. Our programme of refurbishing existing residential accommodation and selective conversion of upper parts to residential use adds to the affordable housing stock in the localities in which we operate. The needs of the local community are accordingly a conscious part of our decision-making process.

Corporate and Social Responsibility continued

Environmental Approach

We support initiatives which can lead to sustainable environmental and social benefits. Within our head office we aim to use energy saving devices wherever possible and we have paper and plastic recycling arrangements in place. Fair trade office supplies are purchased wherever possible. We have made practical arrangements to encourage our staff to travel by public transport or to cycle or jog to the office to reduce our Company carbon footprint. We believe that our business model encourages people to shop within working distance of their homes, avoiding unnecessary travel and our "local shops, nationwide" philosophy promotes good community relations in which local businesses thrive. In our property development activities, we focus on investing in and upgrading existing property stock. It is not our policy to develop new commercial units, thereby minimising construction damage to the environment. Our development projects are in the main aimed at extending and improving facilities within existing building envelopes, often by creating residential f ats. In doing so we supply additional housing stock within existing urban areas, thereby reducing the impact of green field development. All works we undertake comply with relevant environmental requirements. We aim to reduce our direct adverse environmental impact by lowering the general energy consumption of our business and use renewable sources of energy wherever possible. We have embarked on a programme of energy rating certification for our buildings and future development and refurbishment work will take account of the need to improve building ratings. Our policy of engaging local management and agency teams minimises travel and encourages a healthy working relationship with our tenants.

Group Result and Dividends

The loss for the Group attributable to shareholders for the year was £31.0m (2008: loss of £40.5m). An interim dividend of 1.7p per Ordinary Share was distributed on 30 June 2009. A further dividend for the year of 1.8p per Ordinary Share was distributed on 31 December 2009 to holders of each of the Ordinary Shares in issue and entitled thereto on 11 December 2009.

Activities

The Group continued its activities in investing in properties throughout the United Kingdom, principally in local shops.

Group Companies

The subsidiary undertakings of the Company are set out in note 21 to the financial statements.

Acquisitions and Disposals

The Group made no material acquisitions or disposals during the year.

Supplier Payments

The Group has a policy of paying suppliers in accordance with pre-agreed terms. At 30 September 2009 trade creditors represent an average of 21 days' purchases (2008: 17 days).

Transactions in the Company's Shares

The Company's previous authority to purchase the Company's shares was extended at the Annual General Meeting in February 2009, which authorised purchases of up to 14.99% of the Company's issued Ordinary Share capital at that time. During the year the directors continued the policy of buying back the Company's shares where this was considered to be in the best interests of the Company.

630,000 Ordinary Shares were purchased during the year, of which 605,000 Ordinary Shares were taken into Treasury. The remaining 25,000 of the Ordinary Shares purchased were transferred, at nil consideration, to the trustee of the Company's employee benefit trust, LSR Trustee Limited. During the year 675,000 Ordinary Shares were cancelled, all of which had previously been held in Treasury. At 30 September 2009 the Company held 9,164,017 Ordinary Shares in Treasury.

Details of the Company's shares purchased and cancelled are set out in note 14 to the financial statements. The Company's authority to purchase its shares expires at the 2010 Annual General Meeting, when a resolution will be proposed for its renewal.

Share Capital

The only class of the Company's shares in issue are Ordinary Shares. All of the issued share capital is fully paid up and all shares rank equally. The Company's issued share capital reduced during the year as follows:

Date	Event	Movement	Total Issued Shares
1 October 2008			92,344,870
14 January 2009	Cancellation of Treasury shares	(675,000)	91,669,870
30 September 2009			91,669,870

REIT Regime

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

Charitable and Political Donations

During the year the Group made no donations to charitable organisations (2008: Nil) or for political purposes (2008: Nil).

Board of Directors


Grahame Whateley


Andrew Cunningham


Stephen East


Nicholas Vetch


Michael Riley


Nicholas Gregory


Victoria Whitehouse

Grahame Whateley – Independent Non-Executive Chairman
Aged 66, Grahame Whateley became Chairman of the Company in January 2005. He has worked within the property industry for over 45 years, having chaired the Castlemore group for much of that time. He is also Chairman of the Cedar group of companies. He serves on the Company's Remuneration and Nomination Committees.

Andrew Cunningham – formerly Senior Independent Non-Executive Director
Prior to his resignation on 10 September 2009, Andrew chaired the Audit and Nomination Committees.

Stephen East – Senior Independent Non-Executive Director
Aged 51, Stephen joined the Board on 10 September 2009. He served as Finance Director of Woolworth Group plc from 2005 to 2008, prior to which he was Finance Director of MEPC plc. Earlier in his career he was Group Treasurer at Redland PLC, having qualified as a Chartered Accountant at Binder Hamlyn. He has also held non-executive appointments at Regus Group plc and Star Energy Group plc. Besides chairing the Audit and Nomination Committees, Stephen serves on the Remuneration Committee.

Nicholas Vetch – Independent Non-Executive Director
Aged 47, Nick Vetch was joint Chief Executive of Edge Properties, which he co-founded in 1989, before being taken over by Grantchester Properties plc in 1998. In the same year he co-founded Big Yellow Group PLC, of which he remains Executive Chairman. Nick Vetch is a Chartered Surveyor and is also a non-executive director of Blue Self Storage S.L., a self storage operation in Spain. Besides chairing the Remuneration Committee, he serves on the Audit Committee.

Michael Riley – Joint Chief Executive Officer
Aged 49, Mike Riley has worked in the property industry since 1986, having trained as a Chartered Surveyor with Hillier Parker. Following this he joined Chesterton International, becoming Managing Director of its property finance arm, De Groot Collis Financial Services Limited. He joined HBV Real Estate Capital in 1997, becoming Joint Managing Director in 1999. Mike was then at Quintain Estates and Development Plc from July 2001, holding the role of Chief Executive from March 2002. In October 2002 he moved to Castlemore Securities Limited, where he was a director until January 2005, when he became a director of the Company.

Nicholas Gregory – Joint Chief Executive Officer
Nick Gregory, aged 44, qualified as a Chartered Surveyor having trained at Chesterton from 1993. He then joined UBS Global Asset Management (UK) Limited where he was director responsible for acquisitions for the Triton Property Fund. In October 2002 Nick moved to Castlemore Securities Limited, where he was a director until January 2005, when he became a director of the Company.

Victoria Whitehouse – Finance Director
Aged 36, Victoria Whitehouse trained as a Chartered Accountant with Felton & Co in Birmingham, qualifying in 1997. She then joined KPMG, becoming Senior Audit Manager. In 2005 she moved to ProLogis Developments Limited, where she was Group Financial Controller until January 2007 when she joined the Company, becoming Finance Director in May 2007.

Directors' Report

The directors present their report and audited financial statements of the Group and the Company for the year ended 30 September 2009.

Responsibility Statement of the Directors in Respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- 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; and
- the Directors' Report 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.

Going Concern

The directors have considered the appropriateness of preparing the financial statements on a going concern basis. The diversity of the tenant base across retail sectors and its geographical spread around the country, as shown on page 3, demonstrates no reliance on one significant tenant. The current drawn down bank facilities have no loan to value covenants and interest cover tests between 110% and 115% which have been met throughout the year. The Group has debt free properties with a value at 30 September 2009 of £42.9m which could be applied to remedy any breach of the interest cover tests. Both loans are due for repayment in one instalment in 2016. The Group has undrawn facilities of £60m in place. Therefore, in the absence of unforeseen circumstances, the directors consider that the Group will continue to be compliant with its banking covenants and have sufficient resources available to continue as a going concern for at least the next 12 months.

The Directors' Report incorporates the Business Review on pages 7 to 10 and the Financial Review on pages 11 to 12.

Victoria Whitehouse
Finance Director
24 December 2009

Director Appointments
In accordance with the provisions of Article 111 of the Company's Articles of Association Mike Riley retired from office at the 2009 Annual General Meeting and was reappointed at that meeting. In accordance with the provisions of Article 117, Stephen East, having been appointed since the 2009 Annual General Meeting, will retire from office at the next Annual General Meeting and will offer himself for reappointment. In accordance with the provisions of Article 111, Nick Gregory will also retire at the 2009 Annual General Meeting and will offer himself for reappointment.

Directors' Interests
No director has any material interest in any contract or arrangement with any company within the Group.

The interests of the directors in the issued share capital of the Company, all of which were beneficial, are set out below. None of the directors had any beneficial interest in any subsidiaries of the Company.

Director	Ordinary 20p Shares 30 September 2009	30 September 2008
Andrew Cunningham (resigned 10.09.2009)	14,368	14,368
Stephen East (appointed 10.09.2009)	Nil	Nil
Nick Gregory	575,000	500,000
Mike Riley	575,000	500,000
Nick Vetch	2,873,563	2,873,563
Grahame Whateley	7,660,918	7,660,918
Vickie Whitehouse	1,149	1,149

Directors' interests in employee share schemes are set out on page 25.

Substantial Shareholdings
As at the date of this document the Company had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following major interests in voting rights attached to its Ordinary Shares of 20p each (which represent interests in 3% or more of its issued ordinary capital).

Name	Ordinary Shares	%
Schroder Investment Management Limited	13,281,627	16.10
J G Whateley	8,747,125	10.60
AXA Framlington	6,500,000	7.88
M&G Investment Management Ltd	5,617,010	6.81
Thames River Capital LLP	4,135,286	5.01
European Investors Inc	4,680,366	5.67
Colonial First State Investments Limited	3,075,150	3.73
N J Vetch	2,873,563	3.48
APG Investments	2,477,436	3.00

Funding Agreements
The funding agreements entered into by certain Group companies require the written approval of the bank before any significant change can be made to the nature, constitution, management or ownership of the business.

Employee Share Schemes
The Company operates the following employee share schemes:

- The Local Shopping REIT plc Company Share Option Plan ("CSOP"); and
- The Local Shopping REIT plc Long Term Incentive Plan ("LTIP").

Details of both these schemes are set out in the Directors' Remuneration Report on pages 23 to 26.

Employees
Information on the Company's policies towards its employees, including "whistle blowing", ethical standards, health and safety and employee involvement, is contained in the section on Corporate and Social Responsibility on page 15.

Disclosure to Auditors
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/she is aware of any information relevant to the audit and to establish that all such information has been disclosed to the Auditors.

Auditors
KPMG Audit Plc will resign at the conclusion of the forthcoming Annual General Meeting, but have indicated their willingness to continue as Auditors to the Company. A resolution proposing the re-appointment of KPMG Audit Plc will be put to the Annual General Meeting.

Corporate Governance

Compliance with the Combined Code

The Company has throughout the year complied with the provisions of the Combined Code on Corporate Governance 2008 ("the Combined Code"), as well as the Corporate Governance Rules of the Financial Services Authority. This statement summarises how the principles set out in the Combined Code have been implemented.

Board Effectiveness

The Board, which is responsible for the strategy of the business and its effective control, meets regularly to review the Company's operations and the success of its investment strategy. The executive directors, to whom day-to-day operational management is delegated, consult 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 directors.

Division of Responsibilities

There is a clear division of responsibilities between executive and non-executive directors, with the Chairman's remit clearly separate from that of the joint Chief Executives. The Board has appointed a senior non-executive director, whom shareholders may contact where normal communication channels may be inappropriate. Rules are in place to identify those items that should be referred to the Board as a whole. The functions of the Board's committees are set out in terms of reference approved by the Board and each non-executive director's duties and obligations are clearly set out in his letter of appointment.

Balance and Independence

The Board considers that its composition of three independent non-executive directors and three executive directors conforms to the requirement for balance and the need to avoid domination of decision taking. Having considered the relevant criteria and the character of each individual, the Board considers that each of its non-executive directors may be regarded as independent for the purposes of the Combined Code. Arrangements are in place to enable directors to have access to independent advice and the services of the Company Secretary.

Board Appointments

In appointing new directors, the Board considers advice from external professional consultants and candidates are interviewed separately by executive and non-executive directors. All director appointments must be approved by the Board's Nomination Committee, which is responsible for ensuring that all appointments meet the required standards of skills, experience and stewardship ability in accordance with the principles of the Combined Code. Details of the membership of the Nomination Committee are contained in the section on Board committees set out below.

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. One third of the directors must retire at each Annual General Meeting, but may offer themselves for re-appointment.

Meetings and Information

The Board and its committees have a regular cycle of meetings to enable effective monitoring of business performance. Of the 11 Board meetings held during the year, two were held to execute matters that were agreed at a previous Board meeting. Otherwise, each Board meeting has a formal agenda, with key items reviewed on a regular basis. In consultation with the Board and committee Chairmen, the Company Secretary ensures that all directors receive up-to-date and accurate reports and summaries prior to each meeting. The minutes of each committee meeting are circulated to the Board as a whole. Outside the Board meeting cycle, directors receive regular progress reports and key management information with frequent consultations between the executive and non-executive directors.

ATTENDANCE AT BOARD & COMMITTEE MEETINGS DURING THE YEAR TO 30 SEPTEMBER 2009

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Cunningham (resigned 10.09.2009)	6	3	2	1
Stephen East (appointed 10.09.2009)	2	1		
Nick Gregory	9			
Mike Riley	9			
Nick Vetch	7	4	2	
Grahame Whateley	8		2	1
Vickie Whitehouse	10			1
Total Number of Meetings	11	4	2	1

Performance Evaluation

The non-executive directors, through the Chairman, provide feedback to the executive directors on their performance. Similarly, the non-executive directors appraise the performance of the Chairman through the senior independent non-executive director. The executive directors are consulted as part of this process.

Insurance Cover

The Company has an appropriate insurance policy in place in respect of potential legal action against any of its directors and officers.

Remuneration

The remuneration of all executive directors and the Chairman is determined by the Remuneration Committee. The Committee considers advice from independent consultants in determining remuneration levels and appropriate reward schemes applicable to the executive directors and senior managers. Further details are set out in the Directors' Remuneration Report on pages 23 to 26. The Board has delegated the task of setting the level of remuneration for non-executive directors to the Chairman and executive directors, who do so taking account of advice from independent consultants.

Board Committees

The Board has established Audit, Remuneration and Nomination Committees. Each committee operates within terms of reference determined by the Board having regard to independent external guidance.

Audit Committee

The Audit Committee's Chairman is Stephen East, who succeeded Andrew Cunningham on 10 September 2009. The Audit Committee's other member is Nick Vetch. Both Mr East and Mr Vetch are independent non-executive directors, as was Mr Cunningham. The Board considers Mr East to have the requisite skills to chair the Committee. The biographical details of the Committee's members are set out on page 17. The Company Secretary acts as secretary to the Committee. The Committee has formal terms of reference approved by the Board which accord with the provisions of the Combined Code.

Committee meetings may be attended, by invitation only, by other members of the Board. Representatives of the Company's Auditors, KPMG Audit Plc, also attend the Committee's meetings and a member of the Committee also meets the Auditors in the absence of the executive directors and members of the management team.

The Committee met four times during the year and each member's attendance record is set out in the table on page 20.

The Audit Committee considers that an internal audit function is not appropriate, given the size of the business.

Remuneration Committee

Full details of the membership of the Remuneration Committee and the Company's remuneration policy are set out in the Directors' Remuneration Report on pages 23 to 26. The Committee held two meetings during the year. Each member's attendance record is set out in the table on page 20.

Nomination Committee

The Nomination Committee comprises at least three directors, the majority of whom are independent non-executive directors. The Committee has formal terms of reference approved by the Board. The Committee is chaired by the Company's senior independent non-executive director. The Committee's Chairman is Stephen East, who succeeded Andrew Cunningham on Mr Cunningham's resignation from the Board on 10 September 2009. Each member's attendance record is set out in the table on page 20.

During the year the Committee considered the appointment of a new non-executive director to succeed Andrew Cunningham. In doing so, it considered candidates nominated by external third-party advisers and ensured that individual directors had the opportunity of interviewing leading candidates and feeding back their views to the Committee, which considered these before making a recommendation to the Board.

Director Induction

Arrangements are made to provide new directors with an induction programme into the Company's activities. Non-executive directors are welcome to visit the Company's offices at any time and (by arrangement with tenants) its investment properties.

Accountability and Audit

The directors have considered a number of factors which impact on the Group's ability to continue as a going concern, as described on page 18.

After due enquiry, including compliance with banking covenants and a review of future anticipated cash f ows, the directors have a reasonable expectation that the Company and the Group has sufficient resources to continue operating for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Internal Controls

The directors acknowledge their responsibility for maintaining an appropriate system of internal controls and monitoring its effectiveness and the Board complies with the internal control provisions of the Combined Code. 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. Terms of reference are in place covering the responsibilities of the Board's committees. Whilst the Board has delegated authority to the executive directors, clear statements are in place identifying those matters which the Board has reserved to itself for decision and matters on which the executive directors are expected to consult the Board. The Board thereby retains control over corporate strategy, annual budgets, significant contracts outside the ordinary course of business and corporate acquisitions and disposals. There are prescribed limits to the executive directors' authority to commit the Company to expenditure and borrowing. The executive directors operate clear expenditure and project approval systems within the Company's management processes.

The Audit Committee monitors the Company's risk identification and internal control systems, taking into account the findings of the Company's Auditors and insurers, with a formal review taking place on an annual basis in addition to interim monitoring. Members of the Audit Committee also provide assistance to the Company's managers on an informal basis, bringing to bear their knowledge and experience of risk management arrangements in other businesses. Given the Company's size, the Committee does not consider the establishment of a separate internal audit function to be appropriate. 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.

Corporate Governance continued

Control Environment and Procedures

The Group's established internal control process comprises:

- top-level risk identification, evaluation and management framework monitored by the Audit Committee;
- written remits for executive management identifying items reserved to the Board and its committees;
- a procedures manual covering all operational activity, including limits of authority and authorisation procedures;
- effective systems for authorising capital expenditure and recording actual cost incurred;
- structured induction process for all joiners and ongoing staff development;
- regular team meetings to identify operational developments and processes to be put in place to deal with them effectively;
- regular progress meetings with the managing agents retained by the Company, including reviews of agents' systems and procedures;
- established procedures for electronic information control and security;
- regular independent audits;
- regular operational and individual performance reviews by executive management;
- monthly 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 ongoing effectiveness of the Company's hedging arrangements; and
- quarterly reporting of health, safety and environmental matters.

KPMG Non-Audit Work

In order to safeguard the objectivity of the Company's Auditors, strict procedures have been put in place for the engagement of KPMG Audit Plc in non-audit work. Careful consideration is given to whether such work might give rise to a conf ict of interest and 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.

Whistle Blowing Arrangements

The Company has in place procedures for internal "whistle blowing". These are described under Corporate and Social Responsibility on page 15.

Investor Relations

The directors place considerable emphasis on strong communications links with the Company's investors, maintaining a continuing programme of meetings with shareholders, subject to regulatory constraints. These usually involve the Joint Chief Executive Officers and the directors are happy to arrange additional meetings with investors on request. The Board is provided with reports on these meetings, together with general feedback from investors and the Company's bankers and advisers. The Board provides interim management reports and other announcements in accordance with regulatory requirements. Regulatory announcements and key publications are also fed into the Company's website.

The Company's Annual General Meeting provides a further forum for investors to discuss the Company's progress. The Company complies with relevant regulatory requirements in relation to convening the meeting, its conduct and the announcement of the results of 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.

Directors' Remuneration Report

Remuneration Committee

The Remuneration Committee ("the Committee") works in accordance with formal terms of reference set by the Board, within which it is 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 Combined Code and the Listing Rules.

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

Nick Vetch (Committee Chairman);
Andrew Cunningham (resigned 10 September 2009);
Stephen East (appointed 10 September 2009); and
Grahame Whateley.

Biographical details of the members of the Committee are set out on page 17.

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 and none did so during the year.

In setting the remuneration packages of the executive directors and establishing the Company's share-related incentive plans, the Committee has access to independent advice from New Bridge Street Associates, remuneration consultants. New Bridge Street Associates does not provide any other services to the Group.

Remuneration Policy

The Company's remuneration policy is based on the principles set out below:

- within a competitive market, retaining and facilitating the recruitment 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.

These principles are ref ected in the mix of basic pay, benefits, annual bonus and long-term awards contained in the remuneration packages adopted for the executive directors. The approach adopted by the Committee is to set base pay and other fixed remuneration at less than the median for companies in the FTSE real estate sector, with total remuneration including performance-based awards being aimed at between the median and upper quartile relative to the sector. However, rewards at this level will only be generated provided the executives achieve stretching performance targets.

Base Pay and Benefits

Basic salary and benefits are reviewed annually by the Committee against comparable market groups. In addition to their base salary, the executive directors are provided with private health insurance, death in service and disability insurance cover and critical illness cover.

The level of executive directors' base pay did not increase during the year.

Directors' Pensions

The Company has established a Stakeholder Pension Plan which all employees, including executive directors, are eligible to join. No executive director is a member of this pension plan at the date of this document. The Company made contributions to the personal pension plans of executive directors, as a percentage of base salary, as follows:

Nick Gregory 10% per annum
Mike Riley 10% per annum

Annual Executive Bonus Plan ("the bonus plan")

The bonus plan provides for incentive payments to the participants to the extent that performance targets set by the Committee are achieved during the financial year. Under the bonus plan the Joint Chief Executives may earn annual awards of up to 100% of base salary and the Finance Director may earn bonus awards of up to 50% of salary. The maximum bonus for other participating executives will be determined by the Committee, but will not exceed 100% of base salary.

Under the plan 50% of bonus awards are dependent on the extent by which the Company's total property return exceeds that of the Investment Property Databank Index for Standard Shops during the performance period, with the remaining 50% dependent on the growth in the Company's Dividend Per Share in comparison with the growth in the Consumer Price Index during the same period.

No awards were made under the bonus plan during the year.

Long Term Incentive Plan ("the LTIP")

Under the terms of the LTIP employees, including executive directors, may be granted awards of the Company's shares in the form of a nil cost option. The LTIP is operated by the Committee in conjunction with the Company's Employee Benefit Trust ("EBT"), which may grant awards on the Committee's recommendation. The exercise of awards granted under the LTIP is conditional on the achievement of objective performance targets set by the Committee at the time of grant. Performance is measured over a minimum period of three years and awards may not be exercised until after the expiry of the relevant performance period.

LTIP awards made since the adoption of the scheme in May 2007 reward participants for the achievement of improvements in Total Shareholder Return ("TSR"). 50% of the shares comprising an award are subject to the satisfaction of an Absolute TSR target. The remaining 50% of an award are subject to a Comparator TSR target, by which the Company's TSR is compared with a comparator group of publicly quoted real estate investment companies.

Directors' Remuneration Report continued

Under the Absolute TSR target:

- no award may be exercised in respect of the shares subject to the Absolute TSR target if the average annual percentage growth in the Company's TSR over the performance period is less than 8%;
- an award may be exercised as to 20% of the shares subject to the Absolute TSR target if the average annual percentage growth in the Company's TSR over the performance period is equal to or greater than 8%;
- an award may be exercised as to 100% of the shares subject to the Absolute TSR target if the average annual percentage growth in the Company's TSR over the performance period is equal to or greater than 16%; and
- where the Company achieves a TSR over the performance period of between 8% and 16%, the award may be exercised on a pro rata basis between 20% and 100% of the shares subject to the Absolute TSR target.

Under the Comparator TSR target:

- no award may be exercised in respect of the shares subject to the Comparator TSR target unless the Company is ranked equal to or above the 50th percentile by reference to its TSR relative to that of the comparator group over the performance period;
- an award may be exercised as to 25% of the shares subject to the Comparator TSR target if the Company is ranked equal to the 50th percentile by reference to its TSR relative to that of the comparator group over the performance period; and
- an award may be exercised as to a further 3% of the shares subject to the Comparator TSR target for each percentile by which the Company is ranked above the 50th percentile, so that the award subject to the Comparator TSR target may be capable of exercise in full if the Company is ranked equal to or above the 75th percentile.

The LTIP is subject to an overriding exercise requirement, under which no award may be exercised unless the Company has complied with the REIT regulations in relation to dividend distribution throughout the performance period. Awards to directors made under the LTIP are set out in the table opposite.

No LTIP awards were made during the year.

Future Changes

The Committee is reviewing the operation of both the bonus plan and the LTIP since the Company's admission to the London Stock Exchange in May 2007 and, in particular, whether the previously adopted performance criteria (described above) remain the most appropriate measures of the Company's performance for the purposes of the schemes. In view of the general market conditions in the aftermath of the banking crisis during late 2008, the executive directors waived any entitlement they may have had to an award under the bonus plan for 2007-08. The Committee also decided that it would be inappropriate for awards to be made under the LTIP at that time. (This has meant that the executive directors have not received an LTIP award since the Company's f otation in May 2007.) The executive directors have also waived any entitlement they may have had to a bonus for 2008-09.

The Committee is presently considering alterations to the operation of both the bonus plan and the LTIP to align both schemes more closely to the Company's investment objectives. It is likely that future awards under both the bonus plan and the LTIP will be linked to the achievement of recurring profit and other targets, which the Committee believes is an appropriate benchmark for the schemes given the Company's previously announced intention to distribute 100% of recurring profits in dividend.

Employee Share Option Plan ("the CSOP")
Under the terms of the CSOP, employees of the Company, including executive directors, are eligible to be granted options over the Company's shares at the discretion of the Remuneration Committee. The exercise price of options granted under the CSOP will ordinarily be equal to the market value of the Company's shares at the date of grant and the exercise of options will not normally be subject to a separate performance target. Options will ordinarily be exercised between the third and tenth anniversary of their grant. The CSOP has been approved by HM Revenue & Customs.

No awards have been made to executive directors under the CSOP.

Internal Relativity
The Committee is sensitive to the need to set directors' remuneration having regard to pay and conditions generally within the Company and for the Company to remain competitive as an employer within the sector. The Committee therefore monitors internal and external relativities in line with the Company's growth and the evolving market.

Non-Executive Directors
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 non-executive pay will be reviewed at least every three years by the Chairman and the executive directors, to whom the Board have delegated this task.

Terms of Appointment
One third of the directors are subject to retirement at each Annual General Meeting. 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. Letters of appointment are in place in all cases and set out the expected time commitment of the non-executive directors to the Company's affairs.

For executive directors, the Company's policy is that service contracts should be capable of termination by the Company at not more than one year's notice. The Company has the right to terminate the service contracts without full notice on the payment of compensation in lieu of the period of notice foregone.

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

Directors' Total Emoluments

Director	Salary £	Bonus £	Pension Contributions £	Benefits in Kind £	Total 2009 £	Total 2008 £
Non-Executive Directors						
Andrew Cunningham*	28,423	–	–	–	28,423	30,000
Stephen East**	1,731	–	–	–	1,731	–
Nick Vetch	30,000	–	–	–	30,000	30,000
Grahame Whateley	50,000	–	–	–	50,000	50,000
Executive Directors						
Nick Gregory	285,000	–	26,000	4,400	315,400	316,007
Mike Riley	285,000	–	26,000	4,732	315,732	324,901
Victoria Whitehouse	125,000	–	–	1,088	126,088	123,740
Total	805,154	–	52,000	10,220	867,374	874,648

* Resigned 10 September 2009
** Appointed 10 September 2009

Directors' LTIP Awards

Director	Shares Subject to Award at 1 October 2008	Granted During Year	Exercised During Year	Lapsed During Year	Shares Subject to Award at 30 September 2009	Market Value Per Share at Award Date	Exercise Date From	Exercise Date To
Nick Gregory	298,850	–	–	–	298,850	£1.74	3 May 2010	3 May 2017
Mike Riley	298,850	–	–	–	298,850	£1.74	3 May 2010	3 May 2017
Victoria Whitehouse	16,522	–	–	–	16,522	£1.74	3 May 2010	3 May 2017
Total	614,222	–	–	–	614,222			

Directors' Service Contracts

Non-Executive Directors

Director	Date of Appointment as Director	Date of Current Appointment Letter	Expiry of Term
Stephen East	10 September 2009	9 September 2009	9 September 2010
Nick Vetch	30 March 2007	30 March 2007	29 March 2010
Grahame Whateley	20 September 2004	30 March 2007	29 March 2010

Executive Directors

Director	Date of Contract	Notice Period
Nick Gregory	30 March 2007	12 months from either party
Mike Riley	30 March 2007	12 months from either party
Victoria Whitehouse	30 March 2007	12 months from either party

Directors' Remuneration Report continued

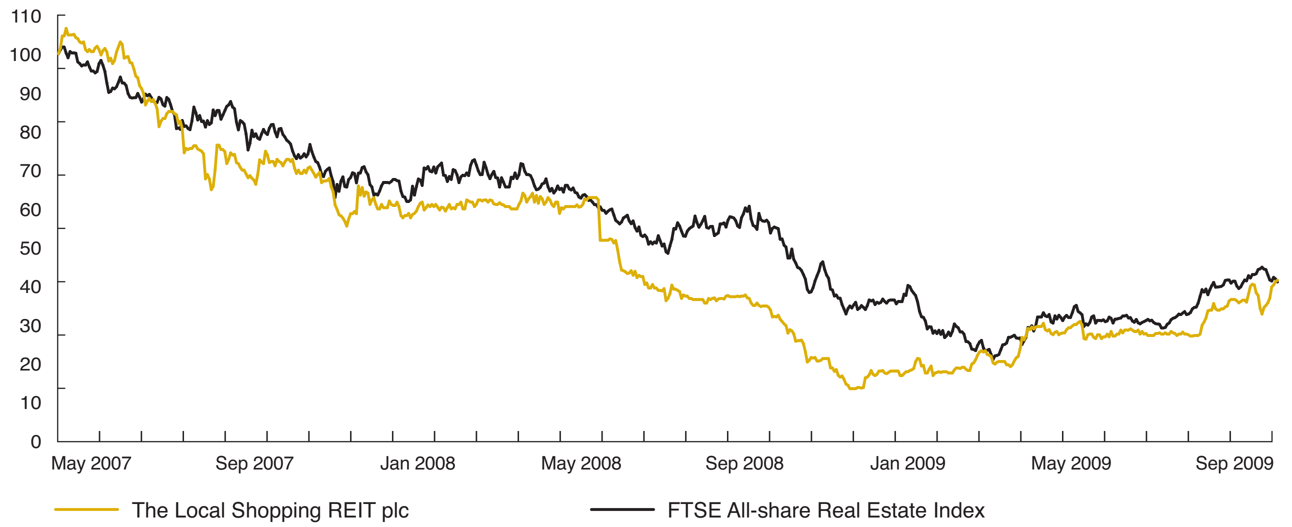
External Appointments

The non-executive directors consider it beneficial in principle for the Company's executive directors to hold non-conf icting outside directorships or other appointments. Directors are entitled to take up one non-conf icting appointment. Any further appointments are subject to approval by the Board. The executive directors have not as yet taken up any such appointment.

Performance Graph (Not Audited)

TSR PERFORMANCE FROM IPO ON 2 MAY 2007 TO 30 SEPTEMBER 2009

Source: Datastream



The TSR performance graph above sets out the comparison of the Company's TSR against the Real Estate Sector. This comparison was chosen as it was considered the most appropriate benchmark against which to assess relative performance of the Company.

This report has been approved by the Board of directors.

Nicholas Vetch
Remuneration Committee Chairman
24 December 2009

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the directors to 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 EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (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 parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then 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, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those 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.

This report was approved by the directors on 24 December 2009.

William Heaney
Company Secretary

We are a

BUSINESS LOOKING FORWARD

with no refinancing until April 2016 and with no loan to value covenants on our drawn-down loans

Independent Auditors' Report to the Members of The Local Shopping REIT plc

We have audited the financial statements of The Local Shopping REIT plc for the year ended 30 September 2009 set out on pages 30 to 59. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on Financial Statements

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 2009 and of the Group's and the parent company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- 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.

Opinion on Other Matters Prescribed by the Companies Act 2006

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following:

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' statement, set out on page 27, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Darren K Turner (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
24 December 2009

Consolidated Income Statement for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Gross rental income		**15,319**	16,691
Property operating expenses		**(2,891)**	(2,622)
Net rental income		**12,428**	14,069
Profit on disposal of investment properties		**3**	48
Loss from change in fair value of investment properties	8	**(28,275)**	(44,358)
Administrative expenses	3	**(2,491)**	(2,774)
Net other income/(expenses)	4	**5**	(113)
Operating loss before net financing costs		**(18,330)**	(33,128)
Financing income*	5	**58**	540
Financing expenses*	5	**(7,147)**	(6,535)
Movement in fair value of derivatives	5	**(5,578)**	(1,347)
Loss before tax		**(30,997)**	(40,470)
Taxation	6	**–**	–
Loss for the financial year attributable to equity holders of the Company	14	**(30,997)**	(40,470)

Basic and diluted loss per share	15	**(37.5)p**	(44.5)p

* Excluding movement in the fair value of financial derivatives.

Consolidated Statement of Recognised Income and Expense for the year ended 30 September 2009

	2009 £000	2008 £000
Net income recognised directly in equity	**–**	–
Loss for the financial year	**(30,997)**	(40,470)
Total recognised income and expense for the year attributable to equity holders of the Company	**(30,997)**	(40,470)

Consolidated Balance Sheet as at 30 September 2009

	Note	2009 £000	2008 £000
Non-current assets			
Property, plant and equipment	7	**180**	216
Investment properties	8	**174,156**	203,705
Derivative financial instruments	16	**–**	37
Total non-current assets		**174,336**	203,958
Current assets			
Derivative financial instruments	16	**–**	203
Trade and other receivables	9	**4,646**	4,546
Investment properties held for sale	8	**1,300**	–
Cash	10	**5,949**	7,527
Total current assets		**11,895**	12,276
Total assets		**186,231**	216,234
Non-current liabilities			
Interest bearing loans and borrowings	11	**(116,133)**	(115,927)
Finance lease liabilities	13	**(1,024)**	(1,356)
Derivative financial instruments	16	**(2,976)**	–
Total non-current liabilities		**(120,133)**	(117,283)
Current liabilities			
Interest bearing loans and borrowings	11	**–**	–
Trade and other payables	12	**(5,170)**	(5,613)
Derivative financial instruments	16	**(2,362)**	–
Total current liabilities		**(7,532)**	(5,613)
Total liabilities		**(127,665)**	(122,896)
Net assets		**58,566**	93,338
Equity			
Issued capital	14	**18,334**	18,469
Reserves	14	**3,773**	3,773
Capital redemption reserve	14	**1,764**	1,629
Retained earnings	14	**34,695**	69,467
Total attributable to equity holders of the Company		**58,566**	93,338

The financial statements were approved by the Board of directors and authorised for issue on 24 December 2009. They were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

The registered number of the Company is 5304743.

Consolidated Statement of Cash Flows for the year ended 30 September 2009

	Note	2009 £000	2008 £000 Restated
Operating activities			
Loss for the year		**(30,997)**	(40,470)
Adjustments for:			
Loss from change in fair value of investment properties	8	**28,275**	44,358
Net financing costs	5	**12,667**	7,342
Profit on disposal of investment properties		**(3)**	(48)
Depreciation	7	**41**	33
Employee share options	3	**176**	176
		10,159	11,391
(Increase)/decrease in trade and other receivables		**(100)**	285
Decrease in investment properties held for sale		**–**	3,081
Decrease in trade and other payables		**(257)**	(438)
		9,802	14,319
Interest paid		**(6,948)**	(6,156)
Interest received		**58**	540
Corporation tax paid		**(253)**	(4,573)
Net cash from operating activities		**2,659**	4,130
Investing activities			
Proceeds from sale of investment properties		**6,922**	13,203
Acquisition of investment properties		**(7,277)**	(13,606)
Acquisition of property, plant and equipment		**(5)**	(176)
Cash flows from investing activities		**(360)**	(579)
Financing activities			
Costs of own shares acquired		**(210)**	(13,590)
Repayment of borrowings		**–**	–
New borrowings		**–**	17,700
Dividends paid		**(3,741)**	(5,829)
Payment of finance lease liabilities		**74**	75
Cash flows from financing activities		**(3,877)**	(1,644)
Net (decrease)/increase in cash		**(1,578)**	1,907
Cash at 1 October 2008		**7,527**	5,620
Cash at 30 September 2009	10	**5,949**	7,527

Notes to the Financial Statements for the year ended 30 September 2009

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 Accounting 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, financial derivatives and investment properties held for sale.

The 2008 comparative figures on the Cash Flow Statement have been restated as movements of £1,347,000 in financial derivatives are non-cash movements and have been classified accordingly.

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 2009. 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 are 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.

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 basis.

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

Notes to the Financial Statements for the year ended 30 September 2009 continued

1 Accounting Policies continued

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.

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 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.

Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the asset.

Depreciation is charged to the Income Statement on the following basis:

- Fixtures and fittings – 15% reducing balance;
- Computer equipment – straight-line basis over three years; and
- Leasehold improvements – straight-line basis over the shorter of the length of lease or the useful economic life.

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.

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.

1 Accounting Policies continued

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.

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 includes lease variation fees which are recognised in the Income Statement as received.

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.

Pensions

The Group operates a defined contribution pension plan. Contributions payable by the Group in respect of defined contribution plans are charged to administrative expenses as incurred.

Share-Based Payments

The Group operates equity settled, share-based compensation plans comprising awards under a Long Term Incentive Plan (“LTIP”) and a Company Share Option Plan (“CSOP”) for certain employees. The fair values of these schemes are measured at their fair value at the date of grant. The fair value is then recognised as an employee cost, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the Group’s estimate of the shares that will eventually vest.

The fair value of each scheme is measured using an option pricing model. The awards under the LTIP scheme are measured using a Monte Carlo simulation model and the awards under the CSOP scheme are measured using a Black Scholes model.

Employee Benefit Trust

The Group operates on Employee Benefit Trust in order to hedge its obligations under the CSOP and LTIP schemes. The Group either purchases 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.

Notes to the Financial Statements for the year ended 30 September 2009 continued

1 Accounting Policies continued

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 have obtained an external valuation of the portfolio carried out by professionally qualified valuers in accordance with the Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors in respect of all properties purchased since 1 October 2008 and a further 25% of the portfolio at the half year and year end as selected by the valuers. This valuation has been used by the directors to value the remainder of the portfolio. The assumptions underlying the valuation include future rental income and an appropriate discount rate. 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.

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 JC Rathbone Associates Limited and this valuation has 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.

New Standards and Interpretations Not Yet Adopted

There are a number of new standards, amendments to standards and interpretations of standards which are not yet effective for the year ended 30 September 2009 and have not been applied in preparing these consolidated financial statements.

IFRS 8 – Operating Segments adopts the "management approach" to segmental reporting which requires the disclosure of segmental information based on internal reports regularly reviewed by the CEO in order to assess each segment's performance. The Group currently operates a single business segment but will reconsider this at the next financial year end once the standard becomes effective.

Amendments to IAS 23 – Borrowing Costs removes the option to expense borrowing costs and requires the capitalisation of borrowing costs directly attributable to acquisition, construction and production of a qualifying asset as part of the cost of that asset. However, the standard does not have to be applied to qualifying assets measured at fair value. Therefore, upon adoption, the revised standard is not expected to have a material impact on the Group's financial statements once the standard becomes effective.

Amendments to IFRS 2 – Share-Based Payments is not yet effective for the Group and has changed certain definitions contained within the standard. Once effective, it is not expected that these changes will have a material impact on the Group.

Amendments to IFRS 3 – Business Combinations and IAS 27 – Consolidated and Separate Financial Statements have been endorsed but are not yet effective.

Amendments to IAS 1 – Presentation of Financial Statements which is not yet effective requires changes to the titles of some financial statements and the introduction of a Statement of Comprehensive Income which will replace the Income Statement and Statement of Recognised Income and Expense. In addition, the Statement of Changes in Equity will become a primary statement.

The following interpretations have been published and are not expected to have a material impact on the Group's financial statements:

- IFRIC 15 – Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009); and
- IFRIC 17 – Distribution of Non-Cash Assets (effective for annual periods beginning on or after 1 July 2009).
- IFRS 7 – Improving Disclosures about Financial Derivatives.

2 Segmental Reporting

The Group operates a single business segment providing accommodation to rent across the United Kingdom. The Group's net assets, revenue and result before tax are attributable to this one activity.

3 Administrative Expenses

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

	2009 £000	2008 £000
Auditors' remuneration for audit services:		
Audit of parent company	**30**	30
Auditors' remuneration for non-audit services:		
Statutory audit of subsidiaries	**45**	45
Tax services	**38**	60
Other services supplied	**20**	32

The other services supplied relate to the review report issued in respect of the Half Year Review.

b) Included in administrative expenses are staff costs and directors' remuneration.

The average number of persons employed by the Group, including directors, was as follows:

	2009 Number of Employees	2008 Number of Employees
Administration	**15**	17

The aggregate payroll costs of these people were as follows:

	2009 £000	2008 £000
Wages and salaries	**1,241**	1,297
Social security costs	**148**	154
Other pension costs	**53**	53
Equity settled share-based payments	**176**	176
	1,618	1,680

Directors' emoluments are disclosed separately in the Directors' Remuneration Report on pages 23 to 26.

Share Award Schemes

The Company operates two share award schemes for certain employees: a Company Share Option Plan and a Long Term Incentive Plan. Both plans were adopted by the Company with effect from 2 May 2007.

During the year further shares were awarded to employees under the Company Share Option Plan. Details of the exercise price and the periods in which they may be exercised are given below.

Company Share Option Plan	Exercise Price p	Exercisable Between	2009 Number 000	2008 Number 000
11 February 2009	28.5	12 Feb 2012- 1 Feb 2019	**61**	–
11 January 2008	102.0	12 Jan 2011- 1 Jan 2018	**–**	37
2 May 2007	175.5	3 May 2010- 1 May 2017	**–**	–

Notes to the Financial Statements for the year ended 30 September 2009 continued

3 Administrative Expenses continued

	Number of Shares 000	Fair Value £000
At 1 October 2007	53	16
Granted	37	6
Expensed	–	(6)
Expired	(28)	(2)
At 30 September 2008	62	14
Granted	61	2
Expensed	–	(6)
Expired	(2)	–
At 30 September 2009	**121**	**10**

The estimated fair value of the share options granted during the year have been calculated using the Black Scholes model. Inputs to the model are summarised below:

	2009	2008
Expected volatility	**35.12%**	25.09%
Risk free interest rate	**2.55%**	4.20%
Expected life of options	**5 years**	5 years
Expected dividend yield	**5.75%**	4.75%
Weighted average share price	**28.5p**	102.0p

The expected life of the options is based on historical data and the Company's expectations. It is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility is indicative of future trends which may also not necessarily be the actual outcome. The volatility was calculated according to comparable data of companies with a similar activity.

Long Term Incentive Plan	Exercise Price p	Exercisable Between	2009 Number 000	2008 Number 000
11 January 2008	–	12 Jan 2011- 1 Jan 2018	–	25
2 May 2007	–	3 May 2010- 1 May 2017	–	–

	Number of Shares 000	Fair Value £000
At 1 October 2007	642	431
Granted	25	8
Expensed	–	(170)
At 30 September 2008	667	269
Granted	–	–
Expensed	–	(170)
At 30 September 2009	**667**	**99**

3 Administrative Expenses continued

The Monte Carlo model has been used to determine the fair value of the shares awarded under the Long Term Incentive Plan. The assumptions used in the model were as follows:

	2009	2008
Expected volatility	–	31.6%
Risk free interest rate	–	4.20%
Expected life of options	–	3 years
Expected dividend yield	–	4.75%
Weighted average share price	–	102.0p

The scheme and its performance criteria are fully explained in the Directors' Remuneration Report on pages 23 and 26.

The expected volatility rate used is the average of a selection of companies which have a similar profile to the Company, as the Company does not have sufficient trading history to use its own share price. The expected volatility is based on historical share prices of these companies over a period equal to the expected term of the awards. The companies used for these purposes are not members of the comparator group of companies for the total shareholder return performance condition.

No options or share awards were exercised as of the balance sheet date.

The fair value of the options and share awards were appraised by an independent appraisal company.

4 Net Other Income/(Expenses)

	2009 £000	2008 £000
Other income	4	41
Other expenses	1	(154)
	5	(113)

Other income relates to sundry amounts charged to tenants in connection with variations to leases. Other expenses relate to fees incurred on aborted property purchases and aborted property sales.

5 Net Financing Costs

	2009 £000	2008 £000
Interest receivable	58	311
Gain on sale of derivative financial instruments	–	229
Financing income excluding fair value movements	58	540
Fair value gains on derivative financial instruments (note 16)	–	–
Financing income	58	540
Bank loan interest	(6,825)	(6,230)
Amortisation of loan arrangement fees	(248)	(230)
Head rents treated as finance leases	(74)	(75)
Financing expenses excluding fair value movements	(7,147)	(6,535)
Fair value losses on derivative financial instruments (note 16)	(5,578)	(1,347)
Financing expenses	(12,725)	(7,882)
Net financing costs	(12,667)	(7,342)

Notes to the Financial Statements for the year ended 30 September 2009 continued

6 Taxation

	2009 £000	2008 £000
Current tax		
Corporation tax charged at 28% (2008: 29%)	–	–
Total current tax	–	–
Deferred tax charge		
Origination and reversal of temporary differences	–	–
Total tax charge in the Income Statement	–	–

Reconciliation of Effective Tax Rate

	2009 £000	2008 £000
Loss before tax	(30,997)	(40,470)
Corporation tax in the UK of 28% (2008: 29%)	(8,679)	(11,736)
Tax relief available from REIT status	(1,302)	(1,875)
Effects of:		
Revaluation deficit and other non-deductible items	9,479	13,254
Deferred tax asset not recognised	502	357
	–	–

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.

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 has now been paid in full.

The deferred tax asset not recognised relates to losses which can be carried forward indefinitely in respect of the residual business. It is not anticipated that these will be utilised in the foreseeable future.

7 Property, Plant and Equipment

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 1 October 2007	–	29	54	83
Additions	163	6	7	176
At 30 September 2008	163	35	61	259
Additions	3	–	2	5
At 30 September 2009	**166**	**35**	**63**	**264**
Depreciation				
At 1 October 2007	–	2	8	10
Charge for year	9	5	19	33
At 30 September 2008	9	7	27	43
Charge for year	16	4	21	41
At 30 September 2009	**25**	**11**	**48**	**84**
Net book value				
At 30 September 2009	**141**	**24**	**15**	**180**
At 30 September 2008	154	28	34	216
At 30 September 2007	–	27	46	73

8 Investment Properties

	Leasehold Investment Properties £000	Freehold Investment Properties £000	Total £000
At 1 October 2007	41,588	206,020	247,608
Additions	1,508	12,102	13,610
Disposals	(995)	(12,160)	(13,155)
Fair value adjustments	(2,620)	(41,738)	(44,358)
At 30 September 2008	39,481	164,224	203,705
Additions	1,035	6,242	7,277
Disposals	(2,926)	(4,325)	(7,251)
Fair value adjustments	(3,785)	(24,490)	(28,275)
Investment properties held for sale	–	(1,300)	(1,300)
At 30 September 2009	**33,805**	**140,351**	**174,156**

Notes to the Financial Statements for the year ended 30 September 2009 continued

8 Investment Properties continued

Investment properties held for sale at the balance sheet date are shown separately as current assets as required by IFRS 5. These assets no longer meet the investment criteria of the Group. In determining whether assets no longer meet the investment criteria of the Group, consideration has been given to the conditions required under IFRS 5.

The investment properties have all been revalued to their fair value at 30 September 2009.

All properties acquired since 1 October 2008, together with a sample selected by the valuers of 25% of the portfolio, at the half year and 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 knowledgeably, prudently and without compulsion.

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 Consolidated Balance Sheet for investment properties is as follows:

	2009 £000	2008 £000
Portfolio valuation	**174,432**	202,349
Investment properties held for sale	**(1,300)**	–
Head leases treated as investment properties held under finance leases per IAS 17	**1,024**	1,356
Total per Consolidated Balance Sheet	**174,156**	203,705

9 Trade and Other Receivables

	2009 £000	2008 £000
Trade receivables	**3,355**	3,638
Other receivables	**963**	591
Prepayments	**328**	317
	4,646	4,546

10 Cash

	2009 £000	2008 £000
Bank balances	**5,949**	7,527
Cash in the Statement of Cash Flows	**5,949**	7,527

Included in bank balances are amounts held pending the next interest payment due in October 2009. 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 £1,621,302 (2008: £2,014,000) with accruals for interest due of £1,332,097 (2008: £1,256,000).

11 Interest-Bearing Loans and Borrowings

	2009 £000	2008 £000
Non-current liabilities		
Secured bank loans	**116,929**	116,929
Loan arrangement fees	**(796)**	(1,002)
	116,133	115,927
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. All loans are repayable in one instalment in 2016.

For more information about the Group's exposure to interest rate risk, see note 17.

12 Trade and Other Payables

	2009 £000	2008 £000
Trade payables	**541**	962
Other taxation and social security	**403**	608
Other payables	**1,060**	959
Accruals and deferred income	**3,166**	3,084
	5,170	5,613

Other payables include rent deposits held in respect of commercial tenants of £825,000 (2008: £637,000).

Notes to the Financial Statements for the year ended 30 September 2009 continued

13 Leasing

Obligations Under Finance Leases

Finance lease liabilities on head rents are payable as follows:

	Principal £000	Interest £000	Minimum Lease Payment £000
At 1 October 2007	8,731	(7,378)	1,353
Additions	191	(188)	3
Disposals	(13)	13	–
(Payments)/charge	(75)	75	–
At 30 September 2008	8,834	(7,478)	1,356
Additions	–	–	–
Disposals	(1,546)	1,214	(332)
(Payments)/charge	(74)	74	–
At 30 September 2009	**7,214**	**(6,190)**	**1,024**

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.

14 Capital and Reserves

Reconciliation of Movement in Capital and Reserves

	Share Capital £000	Reserves £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
At 1 October 2007	20,098	3,773	–	127,902	151,773
Cancellation of shares	(1,629)	–	1,629	–	–
Own shares acquired	–	–	–	(12,312)	(12,312)
Dividends	–	–	–	(5,829)	(5,829)
Share-based payments	–	–	–	176	176
Total recognised income and expense	–	–	–	(40,470)	(40,470)
At 30 September 2008	18,469	3,773	1,629	69,467	93,338
Cancellation of shares	(135)	–	135	–	–
Own shares acquired	–	–	–	(210)	(210)
Dividends	–	–	–	(3,741)	(3,741)
Share-based payments	–	–	–	176	176
Total recognised income and expense	–	–	–	(30,997)	(30,997)
At 30 September 2009	**18,334**	**3,773**	**1,764**	**34,695**	**58,566**

14 Capital and Reserves continued

Share Capital

	2009 Ordinary 20p Shares Number 000	2009 Ordinary 20p Shares Amount £000	2008 Ordinary 20p Shares Number 000	2008 Ordinary 20p Shares Amount £000
Allotted, called up and fully paid	**91,670**	**18,334**	92,345	18,469

Investment in Own Shares

During the year the Company purchased 630,000 shares (2008: 14,885,005), 675,000 shares (2008: 8,147,920) were cancelled and 25,000 shares (2008: 456,818) were transferred to the Company's Employee Benefit Trust, LSR Trustee Limited ("EBT"). At the year end, 9,164,017 shares were held in Treasury (2008: 9,234,017). During the year, no shares were transferred from Treasury to the EBT (2008: 30,000). The number of shares held by the EBT at the year end was 1,123,339 (2008: 1,098,339).

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 1985.

Capital Redemption Reserve

The capital redemption reserve arose on the cancellation of 675,000 (2008: 8,147,920) Ordinary 20p Shares.

Dividends

A dividend of 1.8p per share was paid on 31 December 2009. This dividend of £1.46m has not been provided for in these financial statements in accordance with IAS 10. Under the REIT legislation the Company's dividends are divided into two components, known as PID and non-PID. This dividend was wholly classified as a non-PID.

On 30 June 2009 an interim dividend in respect of the year ended 30 September 2008 of £1.38m was paid. This dividend was wholly classified as a PID.

On 31 December 2008 a dividend in respect of the year ended 30 September 2008 of £2.36m was paid. This dividend was wholly classified as a non-PID.

Calculation of Net Asset Value Per Share (NAV)

	2009 £000	2008 £000
Net assets	**58,566**	93,338
Fair value of derivative financial instruments (see note 16)	**5,338**	(240)
Adjusted net assets	**63,904**	93,098

	2009 Number 000	2008 Number 000
Allotted, called up and fully paid shares	**91,670**	92,345
Treasury shares	**(9,164)**	(9,234)
Number of shares	**82,506**	83,111
NAV per share	**71p**	112p
Adjusted NAV per share	**77p**	112p

Notes to the Financial Statements for the year ended 30 September 2009 continued

15 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

	2009 £000	2008 £000
Loss for the year	**(30,997)**	(40,470)

Weighted Average Number of Ordinary Shares

	2009 Number 000	2008 Number 000
Issued Ordinary Shares at 1 October 2008	**83,111**	97,539
Effect of own shares held	**(429)**	(6,519)
Weighted average number of Ordinary Shares at 30 September 2009	**82,682**	91,020

Diluted Earnings Per Share

There is no difference between basic and diluted earnings per share as the effect of share options in the year is anti-dilutive.

16 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 Consolidated Balance Sheet as follows:

	Fair Value 2007 £000	Movements in Income Statement £000	Fair Value 2008 £000	Movements in Income Statement £000	Fair Value 2009 £000
Non-current assets	1,034	(997)	37	**(37)**	**–**
Current assets	553	(350)	203	**(203)**	**–**
Non-current liabilities	–	–	–	**(2,976)**	**(2,976)**
Current liabilities	–	–	–	**(2,362)**	**(2,362)**
Fair value	1,587		240		**(5,338)**
Amount charged to Income Statement		(1,347)		**(5,578)**	

At 30 September 2009 and 30 September 2008 these derivative financial instruments did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

16 Derivative Financial Instruments continued

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

Maturity Date	Amount £000	Rate Payable on Fixed Leg of Swap %	Fair Value 2008 £000	Movements in Income Statement £000	**Fair Value 2009 £000**
30 April 2016	33,000	5.06 to 5.29	(95)	(3,220)	**(3,315)**
31 January 2017	25,178	5.4476	325	(2,348)	**(2,023)**
Swaps in place at 30 September 2009	58,178		230	(5,568)	**(5,338)**
Amortising swap with a maturity date of 31 January 2017	800	5.4476	10	(10)	**–**
30 September 2008	58,978		240	(5,578)	**(5,338)**

The interest rate receivable on each swap is LIBOR.

The derivative financial instruments included in the above tables were valued by JC Rathbone Associates Limited, financial risk consultants, using a discounted cash flow model and published market information.

More details of the Group's policy regarding the management of interest rate risks is given in note 17.

17 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 on pages 20 to 22, 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. There were no changes in the Group's approach to capital management during the year.

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 fixed and floating rates of interest and uses financial instruments to fix the floating rates of interest in accordance with its policy.

The Group does not speculate in financial instruments, it only uses these 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 2009, 100% (2008: 100%) of the Group's debt was fixed or protected with further swaps with a notional value of £10,477,745 (2008: £11,277,745) in place to cover future draw downs of the floating rate debt facility.

Notes to the Financial Statements for the year ended 30 September 2009 continued

17 Financial instruments and Risk Management continued

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 or decrease of 100 basis points (1%) in interest rates in the prior year. At the year end interest rates were below 1%, therefore 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%, a fall of 0.8875%. 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.

	2009				2008	
	Impact on income		Impact on equity		Impact on income	Impact on equity
	+ £000	- £000	+ £000	- £000	+/- £000	+/- £000
Impact on interest income and expense	28	31	28	31	355	355
Impact on fair value of derivatives	3,497	3,497	3,497	3,497	3,644	3,644

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.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The Group has almost 2,000 tenants in over 620 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 page 3 of the Annual Report. 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

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

17 Financial instruments and Risk Management continued

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

30 September 2009

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Cash and cash equivalents	–	5,949	–	5,949	5,949
Trade receivables	–	–	3,355	3,355	3,355
Other receivables	–	–	963	963	963
	–	5,949	4,318	10,267	10,267

30 September 2008

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Cash and cash equivalents	–	7,527	–	7,527	7,527
Derivative financial assets	240	–	–	240	240
Trade receivables	–	–	3,638	3,638	3,638
Other receivables	–	–	831	831	831
	240	7,527	4,469	12,236	12,236

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

The ageing of trade receivables are as follows:

	2009			2008		
	Total £000	Impairment £000	After Impairment £000	Total £000	Impairment £000	After Impairment £000
Not yet due	1,177	–	1,177	1,264	–	1,264
Past due by one to 30 days	1,402	(14)	1,388	1,414	(27)	1,387
Past due by 30-60 days	229	(19)	210	303	(23)	280
Past due by 60-90 days	69	(5)	64	66	(28)	38
Past due by 90 days	875	(359)	516	883	(214)	669
	3,752	(397)	3,355	3,930	(292)	3,638

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

Other receivables at 30 September 2009 and 30 September 2008 were not past due.

Notes to the Financial Statements for the year ended 30 September 2009 continued

17 Financial instruments and Risk Management continued

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

	2009 £000	2008 £000
Balance at 1 October 2008	**292**	–
Impairment loss recognised	**1,043**	734
Trade receivables written off	**(938)**	(442)
Balance at 30 September 2009	**397**	292

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

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 2009

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	**–**	**116,133**	**116,133**	**122,056**
Finance lease liabilities	**–**	**1,024**	**1,024**	**1,024**
Derivative financial instruments	**5,338**	**–**	**5,338**	**5,338**
Trade payables	**–**	**541**	**541**	**541**
Other payables	**–**	**992**	**992**	**992**
Accruals	**–**	**1,719**	**1,719**	**1,719**
	5,338	**120,409**	**125,747**	**131,670**

30 September 2008

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	115,927	115,927	114,948
Finance lease liabilities	–	1,356	1,356	1,356
Trade payables	–	962	962	962
Other payables	–	920	920	920
Accruals	–	1,790	1,790	1,790
	–	120,955	120,955	119,976

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 JC Rathbone Associates Limited, financial risk consultants, using a discounted cash flow model and published market information.

17 Financial instruments and Risk Management continued

The Group has undrawn committed borrowing facilities available at 30 September, in respect of which all conditions precedent have been met, as follows:

	2009 £000	2008 £000
Expiring after more than five years		
Bank loans – term loan facility	**25,000**	25,000
Bank loans – revolving credit facility	**35,000**	35,000
	60,000	60,000

On 5 September 2008, the Group entered into a new borrowing facility with an expiry date of October 2016. In respect of the term loan element of this facility, the draw down period was due to expire in September 2009; however, it was extended to 4 December 2009. After the year end, it was further extended to 31 January 2013.

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

30 September 2009

	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	**116,133**	**164,897**	**7,300**	**6,773**	**6,834**	**6,913**	**7,270**	**129,807**
Finance lease liabilities	**1,024**	**7,213**	**74**	**74**	**74**	**74**	**74**	**6,843**
Derivative financial instruments	**5,338**	**5,571**	**2,372**	**1,390**	**667**	**386**	**309**	**447**
Trade payables	**541**	**541**	**541**	**–**	**–**	**–**	**–**	**–**
Other payables	**992**	**992**	**992**	**–**	**–**	**–**	**–**	**–**
Accruals	**1,719**	**1,719**	**1,719**	**–**	**–**	**–**	**–**	**–**
	125,747	**180,933**	**12,998**	**8,237**	**7,575**	**7,373**	**7,653**	**137,097**

30 September 2008

	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	115,927	171,302	6,773	6,702	6,643	6,677	6,619	137,888
Finance lease liabilities	1,356	8,834	75	75	75	75	75	8,459
Trade payables	962	962	962	–	–	–	–	–
Other payables	920	920	920	–	–	–	–	–
Accruals	1,790	1,790	1,790	–	–	–	–	–
	120,955	183,808	10,520	6,777	6,718	6,752	6,694	146,347

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.

Notes to the Financial Statements for the year ended 30 September 2009 continued

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	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Operating leases which expire:				
Within one year	**96**	96	14	14
One to two years	**96**	96	6	14
Two to five years	**96**	96	–	7
Over five years	**504**	600	–	–
	792	888	20	35

b) As lessor

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

	2009 £000	2008 £000
Operating leases which expire:		
Within one year	**2,364**	917
One to two years	**815**	1,213
Two to five years	**4,020**	3,504
Over five years	**8,467**	10,570
	15,666	16,204

19 Capital Commitments

At 30 September 2009 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £735,000 (2008: Nil).

20 Related Parties

Identity of Related Parties

The Group has related party relationships with its subsidiaries (see note 21), and with its key management personnel.

Transactions with Key Management Personnel

The only transactions with key management personnel relate to remuneration which is set out in the Directors' Remuneration Report on pages 23 to 26.

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

20 Related Parties continued

At the year end there were no balances owed by/(to) associated companies.

In the previous year, the Group owed £274,000 to Castlemore Securities Limited and was owed £54,000 by Castlemore Ventures Limited. During the year these balances were settled.

At the time of the flotation a transitional services agreement was entered into with Castlemore Securities Limited ("CSL") whereby CSL would continue to provide certain management services on a transitional basis to the Group. The charge for the year in respect of these services was £nil (2008: £180).

21 Group Entities

Control of the Group

There is no ultimate controlling party.

Subsidiaries

	Country of Incorporation	Ownership Interest* 2009	2008
NOS Limited	United Kingdom	**100%**	100%
NOS 2 Limited	United Kingdom	**100%**	100%
NOS 3 Limited	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%
NOS 7 Limited	United Kingdom	**100%**	100%
NOS 8 Limited	United Kingdom	**100%**	100%
Gilfin Property Holdings Limited	United Kingdom	**100%**	100%
LSR Asset Management Limited	United Kingdom	**100%**	–
NOS Residential Limited	United Kingdom	**100%**	–

* All interests are in Ordinary Shares.

Company Balance Sheet as at 30 September 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Property, plant and equipment	C5		**180**		216
Investments	C6		**152,843**		148,955
			153,023		149,171
Current assets					
Debtors	C7	**2,282**		1,555	
Cash		**1,965**		2,219	
		4,247		3,774	
Creditors: Amounts falling due within one year	C8	**(28,598)**		(16,162)	
Net current liabilities			**(24,351)**		(12,388)
Total assets less current liabilities			**128,672**		136,783
Creditors: Amounts falling due after one year			**–**		–
Net assets			**128,672**		136,783
Capital and reserves					
Share capital	C9		**18,334**		18,469
Reserves	C9		**3,742**		3,742
Capital redemption reserve	C9		**1,764**		1,629
Profit and loss account	C9		**104,832**		112,943
Shareholders' funds			**128,672**		136,783

These financial statements were approved by the Board of directors on 24 December 2009 and were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

The registered number of the Company is 5304743.

Notes to the Company Financial Statements for the year ended 30 September 2009

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

All fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the asset.

Depreciation is charged to the profit and loss account on the following basis:

- Fixtures and fittings – 15% reducing balance;
- Computer equipment – straight-line basis over three years; and
- Leasehold improvements – straight-line basis over the life of the lease.

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 operates a defined contribution pension plan. Contributions payable by the Company in respect of defined contribution pension plans are charged to administrative expenses as incurred.

Share-Based Payments

The Company operates equity settled, share-based compensation plans comprising awards under a Long Term Incentive Plan ("LTIP") and a Company Share Option Plan ("CSOP") for certain employees. The fair values of these schemes are measured at their fair value at the date of grant. The fair value is then recognised as an employee cost, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest.

The fair value of each scheme is measured using an option pricing model. The awards under the LTIP scheme are measured using a Monte Carlo simulation model and the awards under the CSOP scheme are measured using a Black Scholes model.

Notes to the Company Financial Statements for the year ended 30 September 2009 continued

C1 Accounting Policies continued

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 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.

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

Loss for the Financial Year

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £4,336,000 (2008: loss £1,728,000).

C2 Remuneration of Directors

The detailed information concerning directors' emoluments, shareholdings and share options is shown in the Remuneration Report on pages 23 to 26.

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 Tangible Fixed Assets

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 30 September 2008	163	35	61	259
Additions	3	–	2	5
At 30 September 2009	**166**	**35**	**63**	**264**
Accumulated depreciation				
At 30 September 2008	9	7	27	43
Charge for year	16	4	21	41
At 30 September 2009	**25**	**11**	**48**	**84**
Net book value				
At 30 September 2009	**141**	**24**	**15**	**180**
At 30 September 2008	154	28	34	216

C6 Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 1 October 2008	148,955	148,955
Additions	6,400	6,400
At 30 September 2009	**155,355**	**155,355**
Provisions		
At 1 October 2008	–	–
Impairment charge for year	2,512	2,512
At 30 September 2009	**2,512**	**2,512**
Net book value		
At 30 September 2009	**152,843**	**152,843**
At 30 September 2008	148,955	148,955

During the year the Company subscribed for a further 1,150,000 (2008: nil) Ordinary £1 Shares in its 100% owned subsidiary, NOS 3 Limited and a further 5,250,000 (2008: 1,499,998) Ordinary £1 Shares in its 100% owned subsidiary, NOS 6 Limited.

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 long-term nature of the property investments held, which is commensurate with the long-term 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 in the medium term.

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

Subsidiary Undertaking	Nature of Business	Ownership Interest*
NOS Limited	Property trading	100%
NOS 2 Limited	Property investment	100%
NOS 3 Limited	Property investment	100%
NOS 4 Limited	Property investment	100%
NOS 5 Limited	Property investment	100%
NOS 6 Limited	Property investment	100%
NOS 7 Limited	Property investment	100%
NOS 8 Limited	Property investment	100%
Gilfin Property Holdings Limited	Property investment	100%
LSR Asset Management Limited	Property management	100%
NOS Residential Limited	Property investment	100%

* All interests are in Ordinary Shares.

All of the above companies are incorporated in Great Britain.

Notes to the Company Financial Statements for the year ended 30 September 2009 continued

C7 Debtors

	2009 £000	2008 £000
Amounts owed by Group undertakings	**2,216**	1,417
Other debtors	**13**	78
Prepayments	**53**	60
	2,282	1,555

C8 Creditors: Amounts Falling Due Within One Year

	2009 £000	2008 £000
Trade creditors	**45**	77
Amounts owed to Group undertakings	**28,130**	15,382
Other taxation and social security	**48**	46
Other creditors	**61**	265
Accruals	**314**	392
	28,598	16,162

C9 Called Up Share Capital and Reserves

Share Capital

	2009 Ordinary 20p Shares		2008 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Authorised	**746,000**	**150,000**	746,000	150,000
Allotted, called up and fully paid	**91,670**	**18,334**	92,345	18,469

	Share Capital £000
At 1 October 2008	18,469
Cancellation of shares	(135)
At 30 September 2009	**18,334**

Movement in Reserves

	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 1 October 2008	3,742	1,629	112,943	118,314
Cancellation of shares	–	135	–	135
Own shares acquired	–	–	(210)	(210)
Dividend	–	–	(3,741)	(3,741)
Share-based payments	–	–	176	176
Loss for the financial year	–	–	(4,336)	(4,336)
At 30 September 2009	**3,742**	**1,764**	**104,832**	**110,338**

C9 Called Up Share Capital and Reserves continued

Investment in Own Shares

During the year the Company purchased 630,000 shares (2008: 14,885,005) of these 605,000 (2008: 8,147,920) were cancelled together with a further 70,000 shares which were held in Treasury and no shares (2008: 456,818) were transferred to the EBT which left 9,234,017 remaining to be held in Treasury at the year end (2008: 9,234,017).

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 1985.

Capital Redemption Reserve

The capital redemption reserve arose on the cancellation of 675,000 (2008: 8,147,920) Ordinary 20p Shares.

Dividends

A dividend of 1.8p per share was paid on 31 December 2009. This dividend of £1.46m has not been provided for in these financial statements in accordance with FRS 21. Under the REIT legislation the Company's dividends are divided into two components, known as PID and non-PID. This dividend was wholly classified as a non-PID.

On 30 June 2009 an interim dividend in respect of the year ended 30 September 2009 of £1.38m was paid. This dividend was wholly classified as a PID.

On 31 December 2008 a dividend in respect of the year ended 30 September 2007 of £2.36m was paid. This dividend was wholly classified as a non-PID.

C10 Ultimate Controlling Party

There is no ultimate controlling party.

Glossary of Terms

Adjusted net asset value (“Adjusted NAV”) per share
Adjusted NAV is calculated as shareholders’ funds, plus the mark-to-market adjustment of the fixed rate loan, 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, agents and legal fees.

Funds from operations (“FFO”)
FFO is a term adopted by the National Association of Real Estate Investment Trusts. It is calculated as net income adjusted for depreciation of investment properties and gains/losses on sales of investment properties.

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 is the number of times financial expenses less the head rents treated as finance leases adjustment, is covered by underlying profit before net financing costs, taxation, revaluation adjustments and other income.

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.

Investment Property Databank Ltd (“IPD”)
IPD produces an independent benchmark of property returns.

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.

Mark-to-market adjustment
Mark-to-market adjustment is an accounting adjustment to change the book value of an asset or liability to its market value.

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.

Rent roll
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.

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