

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should immediately seek your own advice from a stockbroker, solicitor, accountant, or other independent financial adviser duly authorised under FSMA.

If you have sold or otherwise transferred all of your Ordinary Shares, please pass this document together with the accompanying Form of Proxy to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the Ordinary Shares. If you have sold only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale was effected.

This document should be read as a whole. Your attention is drawn to the letter from the chairman of LSR which is set out on pages 5 to 11 of this document, recommending that you vote in favour of the resolution to be proposed at the General Meeting referred to below.



the **Local Shopping** reit plc

The Local Shopping REIT plc

Proposed Amendment to Investment Policy

Circular to Shareholders and
Notice of General Meeting

Notice of a General Meeting of the Company to be held at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 12.30 p.m. on 25 July 2013 is set out at the end of this document. A Form of Proxy for use by Shareholders in connection with the General Meeting is enclosed. Whether or not you propose to attend the General Meeting, please complete and submit the Form of Proxy in accordance with the instructions printed on the enclosed form. To be valid, the Form of Proxy must be received by the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, as soon as possible, and in any event no later than 12.30 p.m. on 23 July 2013, being 48 hours before the time appointed for the holding of the meeting.

If you hold your Ordinary Shares in uncertificated form (i.e. in CREST), you may appoint a proxy by completing and transmitting a CREST Proxy Instruction, in accordance with the procedures set out in the CREST Manual, so that it is received by the Registrar (under CREST participant RA19) by no later than 12.30 p.m. on 23 July 2013. The time of receipt will be taken to be the time from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. Shareholders may also register the appointment of a proxy electronically by email to proxy.votes@equiniti.com, so that the appointment is received by the Registrar by no later than 12.30 p.m. on 23 July 2013. Completion and posting of the Form of Proxy or completing and transmitting a CREST Proxy Instruction or appointing a proxy electronically will not prevent you from attending and voting in person at the General Meeting, if you wish to do so.

This document is a circular relating to the Proposal, which has been prepared in accordance with the Listing Rules. This document has been approved by the UKLA.

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EXPECTED TIMETABLE OF KEY EVENTS

Latest time and date for receipt of Forms of Proxy for the General Meeting	12.30 p.m. 23 July 2013
General Meeting	12.30 p.m. 25 July 2013

DEFINITIONS

The following definitions apply throughout this document and the accompanying Form of Proxy, unless the context requires otherwise:

“Board” or “Directors”	the board of directors of LSR whose names are set out on page 5 of this document
“Capita”	Capita Asset Services (London) Limited
“Code”	The City Code on Takeovers and Mergers
“Committee”	the committee of the Board referred to in paragraph 2 of the letter from the chairman of the Company
“FCA” or “Financial Conduct Authority”	the Financial Conduct Authority of the United Kingdom in its capacity as the competent authority for the purposes of Part 6 of FSMA and in the exercise of its functions in respect of admission to the premium segment of the Official List otherwise than in accordance with Part 6 of FSMA
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“Form of Proxy”	the form of proxy enclosed with this document for use by Shareholders in connection with the General Meeting
“GM” or “General Meeting”	the general meeting of LSR at which a resolution will be proposed to approve the adoption of the New Investment Policy, and which is to be held at 12.30 p.m. on 25 July 2013, Notice of which is set out at the end of this document
“Gross Asset Value”	the aggregate value of all the assets of the Group including net distributable but undistributed income less current liabilities of the Group (excluding from current liabilities any proportion of monies borrowed for investment (whether or not treated under accounting rules as current liabilities)), (taking into account the assets and liabilities of the portfolio of property assets the subject of joint venture agreements for so long as INTERNOS is providing services in respect of the same) as shown in the most recent audited annual accounts or interim accounts or quarterly management accounts of the Group prepared in accordance with: (i) the accounting policies and practices adopted by the Group at the date of the investment advisory agreement entered into between the Company and INTERNOS; and (ii) (subject to the aforementioned accounting policies and practices) UK GAAP prevailing at the relevant time, as adjusted to take account of disposals (and acquisitions) within the portfolio of property assets
“Group”	the Company and each of its subsidiaries from time to time
“HSBC”	HSBC Bank plc
“IMA”	the management agreement entered into between the Company and INTERNOS
“Indus”	Indus (Eclipse 2007-1) plc (an affiliate of Barclays Bank plc)
“INTERNOS”	INTERNOS Global Investors Limited

“Listing Rules”	the Listing Rules made by the UKLA under Part 6 of FSMA (as amended from time to time)
“LSR” or “Company”	The Local Shopping REIT plc
“Ordinary Shares”	the existing issued and fully paid ordinary shares of 25 pence each in the share capital of LSR and “Ordinary Share” means any of them
“Proposal”	the proposal set out in paragraph 3 of letter from the chairman of the Company
“New Investment Policy”	the new investment policy of the Company set out in paragraph 3 of letter from the chairman of the Company
“Resolution”	the ordinary resolution relating to adoption of the New Investment Policy set out in the notice of General Meeting at the end of this document
“Senior Management Team”	Michael Riley, Nicholas Gregory, Victoria Whitehouse, Barbara Kalukiewicz, Bill Heaney, Chris Moulden and Kirstyn Rutter
“Shareholders”	holders of Ordinary Shares
“UKLA”	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA

PART I
LETTER FROM THE CHAIRMAN

The Local Shopping REIT plc

(Incorporated and registered in England and Wales under number 05304743)

Directors:

Grahame Whateley (*Non-Executive Chairman*)
Stephen East (*Non-Executive Director*)
Nicholas Vetch (*Non-Executive Director*)
Steve Faber (*Director*)

Registered Office:

6th Floor Palladium House
1-4 Argyll Street
London
W1F 7TA

8 July 2013

**Proposed Changes to the Company's Investment Policy
and Notice of General Meeting**

Dear Shareholder,

1. Summary of the Proposal

Following the announcement of the strategic review on 12 November 2012 the Committee has considered a number of proposals and concluded that a change of investment policy allowing the orderly liquidation of assets, the repayment of debt and the return of the remaining capital to Shareholders over a period of time is in the best interests of all Shareholders. In order to achieve this objective in the most effective and cost efficient way, the Board has conditionally appointed INTERNOS Global Investors Limited ("INTERNOS") to manage this process on behalf of all Shareholders. As announced today, following the appointment of INTERNOS, Nicholas Gregory, Michael Riley and Victoria Whitehouse have resigned from the Board, Steve Faber of INTERNOS was appointed to the Board, and consequently the Board now comprises Grahame Whateley, Stephen East, Nicholas Vetch and Steve Faber.

The purpose of this circular is to update Shareholders on the background and rationale for this proposal, provide details on the new management arrangements, and to ask Shareholders for their support for the change in the Company's investment policy which your Board unanimously recommends.

2. Background to the Proposal

The Company was established with the aim of becoming a market-leading owner of local retail property in the UK. While the Company has been successful in its operational activities since its IPO in 2007, your Board recently concluded that, given its current rating, due in part to its size and capital structure, and the challenge of creating a scalable business during a period of considerable property and financial market volatility, it was in the interest of Shareholders as a whole to review options open to the Company. Your Board therefore announced on 12 November 2012 that it was launching a strategic review of the Company to consider how value could be maximised for Shareholders, conducted by a committee of the Board comprising its non-executive directors.

In the announcement of 12 November 2012 it was explained that any discussions in relation to a merger with a third party or a sale of the Company would take place within the context of a "formal sale process" as defined in the Code in order to enable conversations to take place with parties interested in making such a proposal on a confidential basis. As announced earlier today, during this process, the Company received several indicative proposals and potential offerors were provided with access to management and detailed due diligence information. Following careful consideration, the Board has concluded that a sale of the Company at this time is unlikely to gain sufficient recognition for the underlying value of the business or to deliver best value for shareholders, in part due to the current negative impact of the mark to market liability

on the hedging arrangements. As a consequence, the Board has decided to terminate the formal sale process and the Company is no longer deemed to be in an Offer Period as defined in the Code.

The Committee has considered all other strategic options available to the Company, including alternatives within the status quo with the incumbent management team, external management proposals, strategic transactions such as the disposal of the existing assets and other corporate transactions. The Committee has held discussions with a number of potential counterparties regarding these alternative proposals.

Following the review, your Board announced today that it was proposing to change the investment policy of the Company and had conditionally appointed INTERNOS as a new manager for the Company having determined that such a course of action represents the best means to realise value for Shareholders. The appointment of INTERNOS is conditional on the Company notifying INTERNOS that the Company's obligations under the Transfer of Undertaking (Protection of Employment) Regulations in respect of those employees of the Company transferring to INTERNOS by virtue of such regulations have been satisfied.

Under Listing Rule 15.4.8, the Company is required to obtain the prior approval of Shareholders to any material change to its published investment policy. The purpose of this circular is to seek shareholder approval for the change of investment policy as set out below.

3. The Proposal

The Board recommends that the Company undertake the following courses of action:

- Cease to make further investments in properties, other than where the investment is expected to enhance the value of one or more existing properties, or prevent value erosion;
- Cease to make further investments in the Company's existing joint ventures; and
- Implement a progressive disposal of the Company's assets, to enable repayment of bank facilities and return of surplus value to Shareholders.

The Board believes that the proposed New Investment Policy is the most appropriate course of action for the Company at this time, and is expected to have the following benefits:

- Shareholders should be able to obtain net realisable value (after repayment of borrowings and liabilities) in as short a timescale as practicable;
- The proposed approach to realisation should achieve the best balance between maximising value (compared to an immediate liquidation) and minimising the time taken to return capital to Shareholders;
- The implementation of the proposed New Investment Policy should allow the Company to take advantage opportunistically of buyers' immediate appetites for portfolio assets, at the same time as holding other assets over a longer timescale in order to maximise realisable value. Portfolio sales and corporate transactions, such as the merger or sale of the Company, will also be considered as a means of accelerating the delivery of value to Shareholders; and
- The Company's listing and Shareholders' capacity to trade in the Ordinary Shares will be maintained for as long as practicable.

The Group's lenders, HSBC Bank plc ("HSBC") and Indus (Eclipse 2007-1) plc ("Indus") (an affiliate of Barclays Bank plc), have provided their consent to the Proposal.

In the case of Indus, consent has been granted on the condition that an amortisation payment of £300,000 is paid each quarter into an account over which Capita Asset Services (London) Limited ("Capita") (being the agent in respect of the Indus loan and also an affiliate of Barclays Bank plc) will have sole signing rights. The first amortisation and second amortisation payments will be made retrospectively for the April 2013 and June 2013 interest payment dates, and the sum standing to the credit of this account will be used to repay Indus' loan in January 2017. Capita required that INTERNOS entered into a duty of care agreement pursuant

to which Capita is granted certain rights in relation to the termination of the IMA. Details of these rights are set out below.

In the case of HSBC, HSBC required that the existing facilities for two subsidiaries be amended and restated, with the following principal amendments:

- the facilities are cross-collateralised, with security being granted over each of these property owning companies and their respective portfolios to secure the debt outstanding on the other facility;
- the commitments have been reduced, one of the subsidiaries now has a term loan of £46.5 million, which is fully drawn, and the other subsidiary has a term loan of £19.8 million, which is fully drawn. The revolving facility previously available to one of the subsidiaries has been cancelled;
- the financial covenants on both facilities are tested on a consolidated basis, with total loans to value not to exceed 91.5 per cent., and total projected and current interest cover ratios not to exceed 120 per cent.;
- a fixed margin of 2 per cent. applies on both facilities and is payable on each interest payment date;
- a PIK margin will accrue from 1 January 2015 and become payable on repayment of the loans (this accrues at the rate of 1 per cent. per annum from 1 January 2015, 1.5 per cent. from 1 January 2016 and then 2 per cent. thereafter from 1 January 2017);
- the repayment date for both facilities is extended to 30 April 2018;
- amortisation instalments are to be paid on each interest payment date, calculated as being 0.45 per cent. of the total loans on each interest payment date; and
- new properties are to be acquired by both subsidiaries (the aggregate value of which must be a minimum of £5 million) from other Group property owning vehicles, and security in favour of HSBC is to be approved by HSBC and completed over these new properties to secure both facilities. These transfers and the new security must be completed by 30 September 2013. These new properties will be acquired using intercompany loans, and accordingly HSBC require that a subordination agreement also be completed, to provide that all such intercompany debt is subordinated to the HSBC loans.

In addition, HSBC required that INTERNOS entered into a duty of care agreement in favour of HSBC pursuant to which HSBC is granted certain rights in relation to the termination of the IMA. Details of these rights are set out below.

The amendment and restatement of the HSBC facilities is not conditional upon the approval of the adoption of the New Investment Policy.

Change in Investment Policy

Implementation of the Proposal will require material change to the Company's investment policy. The Company's current investment policy, and the proposed New Investment Policy, are set out below.

Current Investment Policy

The Company's investment objective is to provide its Shareholders with an attractive level of income with the potential for income and capital growth. It seeks to achieve this through:

- Investing in local real estate assets in the United Kingdom;
- Exploiting the potential of its property portfolio through active asset management; and
- Making use of its specialist skills and market position to engage in joint ventures, partnerships and management contracts.

Proposed New Investment Policy

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

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

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

Execution of the New Investment Policy

The Company will seek to implement the New Investment Policy as follows:

- All property assets will be sold as expeditiously as is consistent with the protection of value, with an initial focus on those properties already optimised for sale and those in markets where the Company has relatively few assets, so as to reduce property management costs. The Company is aiming to complete the disposal programme within a period of approximately four years.
- Proceeds from the sales of properties will be used to repay the Company's existing debt facilities with HSBC and Indus. The amount the Company will have to pay in respect of termination fees (including crystallisation of any mark to market liability) under the its derivative arrangements with HSBC will be significantly increased or reduced depending on the prevailing interest rates at the time of the repayment of the debt. Therefore, rather than imposing on INTERNOS a prescriptive timetable for the sale of the properties, the Company has instead instructed and incentivised INTERNOS to dispose of properties at such a time during the next four years with the intention of aiming to minimise the total break costs payable and ultimately maximise the monies paid to the Shareholders.
- As the property assets of the Company are sold, the Board will use cash proceeds in excess of the amount that is required to repay allocated loan amounts and related financing costs either for further debt repayment or for return of capital to the Shareholders in accordance with its assessment at that time of what will deliver the best time and risk adjusted returns to Shareholders.
- The orderly phasing of property sales over a period of time is a key aspect of this proposal and the new investment policy, firstly in order to protect value and not over-supply this specialist property market at any one time, and secondly to mitigate associated friction costs, and in particular the early repayment of hedging arrangements. Balancing these two factors will be an important part of executing the new investment policy.
- New property assets will not be acquired unless such an acquisition is deemed by the Board, in consultation with INTERNOS, to be essential to protect or enhance the realisable value of an existing property asset. A corporate transaction, such as the merger or sale of the Company, will be considered, where this offers opportunity to accelerate the realisation of optimal value for Shareholders.

The Board believes that asset allocation and risk diversification policies will be a product of the liquidity profile of the existing portfolio, and therefore the previous investment restrictions and limits applicable to the Company will, as from the date of approval of the adoption of the New Investment Policy at the GM, be superseded by the New Investment Policy. The Company does not intend to actively increase its level of

borrowing on a loan-to-value basis during the realisation period relative to that which follows from the repayment obligations under its existing credit facilities.

New Management Arrangements

The Committee received several credible proposals during the review process from third party managers who are well placed to execute this revised strategy in a cost efficient manner. The Committee has concluded that savings can be achieved through outsourcing management and administration of the Company's activities (excluding the joint ventures, unless specifically requested), rather than continuing with the Company's existing internally managed structure. Accordingly, the members of the Senior Management Team have resigned and the Company has entered into a new management agreement with INTERNOS which, for the avoidance of doubt, is not conditional upon the approval of the adoption of the New Investment Policy.

Under the new management agreement (the "IMA") INTERNOS will be paid the following fees (in each case together with VAT):

- An Asset Management Fee of 0.70 per cent. of Gross Asset Value per annum. Such Asset Management Fee shall be subject to a minimum amount of:
 - £1,000,000 per annum for each of the first two years;
 - £950,000 per annum for the third year; and
 - £900,000 for the fourth year.
- An Annual Performance Fee, which shall comprise 20 per cent. of recurring operating profits for each financial year of the Company (after disregarding any redundancy or other staff termination costs incurred by the Company) above the target recurring operating profit for such financial year as set out in the Business Plan for such financial year (the "Hurdle"). The Hurdle will be rebased quarterly downwards to reflect sales of portfolio property assets and upwards to reflect acquisitions of portfolio property assets. Any such rebasing following each disposal (or acquisition) of a property will be influenced by a wide array of factors (for example (and in the context of a disposal): (a) repayment of debt attaching to the relevant property; (b) costs of unwinding interest swaps attaching to such debt; and (c) whether the relevant property represents a high income or low income asset), not all of which can be forecast or quantified in advance and not all of which will be apportionable on a "straight-line" *pro rata* basis, e.g. certain of the costs of the business as a whole are not directly proportionate to the number/value of assets of the business. The Company does not intend to notify Shareholders of: (i) any adjustments to the Hurdle (including the adoption of a new or revised Business Plan); or (ii) any rebasing of the Hurdle, unless, in either case, required to do so by any applicable law.
- A Sales Fee calculated as follows:
 - The first £50 million in aggregate of sales of property assets held in the portfolio (after the deduction of all costs relating to the same): no Sales Fee.
 - Sales of >£50 million up to £150 million in aggregate of property assets held in the portfolio (after the deduction of all costs relating to the same): Sales Fee of 0.5 per cent. of such sales.
 - Sales of >£150 million in aggregate of property assets held in the portfolio (after the deduction of all costs relating to the same): Sales Fee of 1 per cent. of such sales to the extent over £150 million.
- A Terminal Fee, calculated as follows:
 - 5.7 per cent. of any cash returned to the Shareholders above a hurdle for the Terminal Fee (the "Terminal Fee Hurdle").
 - The Terminal Fee Hurdle is calculated at 36.1 pence per Ordinary Share in cash returned to Shareholders per annum excluding dividend payments from recurring operating profits, rising by 8 per cent. per annum after the first year.

- The Terminal Fee Hurdle reduces on a *pro rata* daily basis each time equity is returned to Shareholders outside of dividend payments from recurring operating profits.

Such fees will be reviewed by the non-executive directors of the Company on a regular basis.

The Sales Fee and the Terminal Fee will only become potentially payable if the adoption of the New Investment Policy is approved at the General Meeting. As a consequence of the appointment of INTERNOS, the Senior Management Team will leave the Company whilst the remainder of the employees will transfer to INTERNOS (save for one employee who will transfer to the new fund manager discussed in the preceding paragraph). Although the Senior Management Team have received notice of the termination of their employment they have agreed to provide management services to the Company to ensure an efficient transition of management responsibilities to INTERNOS.

INTERNOS does not constitute a related party of the Company for the purposes of the Listing Rules. Jos Short, executive chairman of INTERNOS, was previously a non-executive director of Big Yellow Group plc, of which Nicholas Vetch is executive chairman. Until 2008, Mr Short was also a non-executive director of Bluespace alongside Mr Vetch.

Termination of the IMA

A six month notice period is required for the termination of the IMA with INTERNOS under the terms of the IMA. As stated above, as a condition to granting consent to the INTERNOS appointment, each of HSBC and Capita required that INTERNOS entered into a duty of care agreement.

Pursuant to the Capita duty of care agreement, INTERNOS must, *inter alia*, not suspend performance or terminate the IMA in relation to the Capita secured properties, without giving Capita 21 days' notice of its intention to do so, setting out details of the reasons for suspension/termination. Capita may during the 21 day notice period remedy the causes of suspension/termination, but if at the end of the 21 day notice period, the reason for termination has not been remedied to the satisfaction of INTERNOS, INTERNOS shall be entitled to terminate the IMA in relation to the properties secured to Capita.

Pursuant to the HSBC duty of care agreement, *inter alia*, HSBC's consent is required prior to the Company's termination of the appointment of INTERNOS, in relation to the properties secured to HSBC for the HSBC facilities. In the event that INTERNOS wishes to terminate its appointment, it must give HSBC 28 days' notice prior to serving notice on the Company and allow HSBC 28 days in which it can choose to take over the appointment from the Company as regards the properties secured in favour of HSBC (provided all outstanding fees relating to the HSBC secured properties are paid in full by the end of that 28 day period).

Joint Ventures

In order to (i) effect an orderly transition of the joint ventures ("JVs") on behalf of the Company and the respective JV partners and (ii) extract best value for the Company, each JV has entered into management arrangements with a new fund manager (not, for the avoidance of doubt, INTERNOS) established by Michael Riley and Nicholas Gregory, and the Group has contractually agreed to dispose of its interests in two of the JVs for an aggregate consideration of £3,514,659. It is anticipated that the Group's interest in a third Joint Venture will be liquidated in due course.

Dividend Policy

The Company will have increased cash flow constraints due, in part, to the requirement to amortise loans and, in part, due to an anticipated reduction in rental income commensurate with the proposed disposal strategy. The Board also believes that the imperative for the Company is to reduce debt to a more sustainable level.

Accordingly, the Board will not be recommending the payment of dividends for the time being. This will remain under review and a return to the payment of dividends will be made when it is sustainable and desirable. The Company has received advice that, for the time being, that this will not affect the Company's REIT status.

Restructuring Costs

It is anticipated that total costs of the Strategic Review will amount to c. £2.25 million, the majority of which is constituted by staff termination costs of c. £950,000 pursuant to legal obligations and fees to the Company's lenders of c. £400,000.

4. Notice of General Meeting

In accordance with the Listing Rules, the adoption of the New Investment Policy requires the approval of Shareholders. A notice convening the General Meeting in relation to the New Investment Policy to be held at 12.30 p.m. on 25 July 2013 at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London, EC1A 4DD is set out at the end of this document. At this meeting the Resolution will be proposed for the purpose of approving the adoption of the New Investment Policy.

5. Action to be taken

You will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not you propose to be present at the General Meeting, you are requested to complete and sign the Form of Proxy, in accordance with the instructions printed thereon, and return it to the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA to arrive as soon as possible and, in any event, not later than 12.30 p.m. on 23 July 2013.

The completion and return of the Form of Proxy will not affect your right to attend and vote in person at the General Meeting if you wish to do so.

6. Recommendation

Your Board considers that the New Investment Policy is in the best interests of Shareholders taken as a whole and unanimously recommends that Shareholders vote in favour of the Resolution to be proposed at the General Meeting, as the Directors each intend to do in respect of their own beneficial holdings which, as at 5 July 2013, amount in total to 10,609,481 Ordinary Shares, representing approximately 11.57 per cent. of the issued share capital of the Company.

Yours sincerely,

Grahame Whateley
Chairman

PART II

RISK FACTORS

Prior to voting on the Resolution, Shareholders should consider the following risks in relation to the New Investment Policy.

- The proposed change to the investment policy will narrow the scope of the Company's investment policy and could lead to reduced diversification of the Company's portfolio. Reduced diversification may expose the Company to greater investment risk and therefore any downturn in any particular area of investment may have a greater impact on the Company's business, financial condition and results of operations, and a negative impact on the return available to Shareholders.
- There is no certainty that the Company will be able to dispose of its assets within the targeted timescale, or at all. If disposals are made, there is no certainty of the values for those asset disposals. If market conditions negatively impact on the ability of the Company to dispose of assets or impact on the price at which the Company is able to dispose of assets, this may have a material adverse effect on the Company's business, financial condition and results of operations and consequently a negative impact on the return available to Shareholders.
- Under the new investment policy, the Company will need to continue to comply with the terms and conditions of its banking arrangements, in particular with the HSBC and Indus facilities (including the new amortisation arrangements on the Indus and HSBC loans).
- Shareholders should be aware that as the Company executes the new investment policy, the process of managing the wind down of the portfolio and the potential consequences of the new external management contract, the hedging arrangements and the banking facilities may include unpredictable elements that would require detailed negotiation and could have negative value implications for the Group and therefore Shareholders.
- Cash received by Shareholders during the implementation of the realisation strategy may be materially different from the current and/or future disclosed net asset value.
- The discount to net asset value at which the Ordinary Shares trade may not reduce or may increase. As a result, the value of the Ordinary Shares may not increase or may decrease.
- Net asset value may be adversely effected during the realisation period due to market conditions, disposal of investments, fluctuations in the mark-to-market level of any derivative instruments or the cost of any individual asset realisation. The Company cannot commit to maintaining the current level of dividend that Shareholders receive.
- At a later stage during (or following) the forecast four year realisation period, if in the Board's opinion continued trading of the Ordinary Shares ceases to be viable (including, without limitation, where the net asset value attributable to all Ordinary Shares is less than the minimum size the Board considers viable for the ongoing operation of the Company), the listing of the Ordinary Shares may be suspended and cancelled and Ordinary Shares may no longer be traded. Such suspension or cancellation may reduce the liquidity and marketability of the Ordinary Shares and it may be more difficult for Shareholders to realise their investment. Where the Board applies for the listing of the Ordinary Shares to be cancelled, approval of the Shareholders will be sought in compliance with the Listing Rules.

The Local Shopping REIT plc

(Incorporated and registered in England and Wales under number 05304743)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of LSR PLC (the “**Company**”) will be held at 12.30 p.m. on 25 July 2013 at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD to consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

Ordinary Resolution

THAT the New Investment Policy (as defined in the circular to Shareholders dated 8 July 2013 (the “**Circular**”), a copy of which was produced to the meeting and initialled by the Chairman for the purposes of identification) be and is hereby approved for the purposes of Chapter 15 of the Listing Rules of the Financial Conduct Authority.

Registered Office:

6th Floor Palladium House
1-4 Argyll Street
London
W1F 7TA

By order of the Board

William A Heaney
Company Secretary

8 July 2013

Notes:

- (1) A Shareholder who is an individual is entitled to attend, speak and vote at the General Meeting or to appoint one or more other persons as his/her proxy to exercise all or any of his/her rights on his/her behalf. Further details of how to appoint a proxy, and the rights of proxies, are given in the paragraphs below. A Shareholder that is a company can appoint one or more corporate representatives (such as a director or employee of the company) whose attendance at the General Meeting is treated as if the company were attending in person, or it can appoint one or more persons as its proxy to exercise all or any of its rights on its behalf.
- (2) A Shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Shareholder. A proxy need not be a Shareholder of the Company. A Form of Proxy which may be used to make such appointment and give proxy instruction accompanies this notice.
- (3) A Form of Proxy which may be used to make such appointment is enclosed. The appointment of a proxy will not prevent a Shareholder from subsequently attending and voting at the General Meeting in person.
- (4) To be effective, the instrument appointing a proxy and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must be either (a) deposited at the Company’s registrars, Equiniti, Aspect House, Spencer Road, Lancing BN99 6DA by 12.30 p.m on 23 July 2013, (b) lodged using the CREST Proxy Voting Service – see Note (9) below, or (c) lodged electronically by email to proxy.votes@equiniti.com, and, in the case of (b) and (c), no later than 12.30 p.m. on 23 July 2013.
- (5) Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “Nominated Person”) may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.
- (6) The statement of the rights of Shareholders in relation to the appointment of proxies in Notes (1) and (2) above do not apply to Nominated Persons. The rights described in that Note can only be exercised by Shareholders of the Company.
- (7) Holders of Ordinary Shares are entitled to attend and vote at general meetings of the Company. The total number of Ordinary Shares in issue as at 5 July 2013, the last practicable day before printing this document, was 91,669,870 Ordinary Shares and the total level of voting rights was 91,669,870, of which 9,164,017 were attached to shares held in treasury by the Company. On a vote by show of hands every Shareholder who is present in person or by proxy shall have one vote. On a poll vote, every Shareholder who is present in person or by proxy shall have one vote for every Ordinary Share of which he/she is the holder.
- (8) Entitlement to attend and vote at the General Meeting, and the number of votes which may be cast at the General Meeting will be determined by reference to the Company’s Register of Members at 6.00 p.m. on 23 July 2013 or, if the General Meeting is adjourned, at 6.00 p.m. two days prior to the reconvened General Meeting, (as the case may be). In each case, changes to the Register of Members after such time will be disregarded.

- (9) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment thereof by using the procedures described in the CREST Manual (available at www.euroclear.com). CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (10) In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s (“**Euroclear**”) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy, the revocation of a proxy appointment or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in Note (4) above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to a proxy appointed through CREST should be communicated to the appointee by other means.
- (11) CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his/her CREST sponsor or voting service provider(s) takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (12) Any Shareholder attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the General Meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the General Meeting that the question be answered.
- (13) A copy of this notice and other information required by section 311A of the Companies Act 2006 can be found at <http://www.localshoppingreit.co.uk/>.
- (14) You may not use any electronic address provided in this Notice, or any related documents, including the Chairman’s Letter and Form of Proxy, to communicate with the Company for any purposes other than those expressly stated.

